

THE INDONESIAN QUARTERLY

VOL. X, NO. 3:

Current Events

The Outcome of the 1982 General Election

The Armed Forces in Indonesian Society

The Role of International Business
in the Theory and Practice of International Trade

Transfer of Financial Resources
to ASEAN and Latin America

ASEAN and Pacific Economic Co-operation

Opinions

Book Reviews

List of Literature



CENTRE FOR STRATEGIC AND INTERNATIONAL STUDIES



THE INDONESIAN QUARTERLY

CENTRE FOR STRATEGIC AND INTERNATIONAL STUDIES, JAKARTA.

R.S. ROOSMAN *Editor*

Daniel SETYAWAN *Assistant Editor*

SOEDARSO *Secretary*

Kirdi DIPOYUDO *Advisory Board*

J. Soedjati DJIWANDONO *of Editors*

Daoed JOESOEF

J. PANGLAYKIM

A.M.W. PRANARKA

Pande Radja SILALAH

M. Hadi SOESASTRO

A. SUDIHARTO

Harry TJAN SILALAH

Jusuf WANANDI

The Indonesian Quarterly is published by Centre for Strategic and International Studies, (CSIS), Jalan Tanah Abang III/27, Jakarta, and is a medium for the views, research findings and evaluations of scholars, statesmen and creative thinkers in both national and international forum on Indonesian situation and its problems. The opinions expressed in *The Indonesian Quarterly* are those of the contributors and do not necessarily reflect the opinions of the CSIS.

Manuscripts should not exceed 40 typewritten double-spaced pages. A brief biographical paragraph describing each author's current affiliation and research interests, should accompany the manuscript.

Address all correspondence, permission requests, and books for review to *The Indonesian Quarterly*, Jalan Kesehatan 3/13, Jakarta, phone 349489, telex 45164 CSIS IA, cable: CSIS JAKARTA.

Contents

Editorial

The Polls	2
-----------	---

Current Events

The Dual-Function of the Indonesian Armed Forces	
Budi S. SATARI	4
Reduction of Oil Production:	
Its Impact on the Indonesian Economy	
Raymond ATJE	6

Articles

The Outcome of the 1982 General Election	
SOEROSO	9
The Armed Forces in Indonesian Society	
Harsja W. BACHTIAR	23
The Role of International Business	
in the Theory and Practice of International Trade	
J. PANGLAYKIM	32
Transfer of Financial Resources	
to ASEAN and Latin America	
Hadi SOESASTRO	48
ASEAN and Pacific Economic Co-operation	67

Opinions

Indonesia Goes to the Polls	110
-----------------------------	-----

Book Reviews

The Question of International Politics and Strategy	
Juwono SUDARSONO	113
Those Who are the Best-Known in Indonesia?	
Andy ZOELTOM	115
The Study of Education in Indonesia	
Dedi SUPRIADI	117
The Sultan, The "Goalkeeper" of Indonesian Independence	
Lukman HAKIM	118

List of Literature

The Armed Forces in Indonesian Society	121
--	-----

THE POLLS

Throughout Indonesia, the voting on the 4 May 1982 proceeded correctly. The number of voters who made use of their voting right was large: 91.47 per cent. The purpose of the general elections was to choose the representatives who would sit in the House of Representatives (DPR) and the People's Consultative Assembly (MPR). In turn, the MPR will hold its 1983 Session to choose the President and Vice-President for the following five-year period (1983-1988) and to determine the Broad Guidelines of State Policy (GBHN).

The holding of the 1982 General Election means that general elections have taken place periodically every five years under the New Order government: 1971, 1977 and 1982. This fact proves the determination of the government to establish, in stages, a tradition that is founded upon a constitutional awareness of the whole people. Because elections are essentially the instrument made available for the people to express its sovereignty in accordance with the principle implied in the Preamble of the 1945 Constitution.

In fact, since Indonesia became independent on the 17th August, 1945 there had already developed the ideal of conducting elections as one part of the socio-political mechanism to organize social and national life. Yet in its historical course there were many obstacles which always postponed the holding of a general election. It was only in 1955 that the first general election could be held. This produced, however, unstable government since the basis of the election was liberal democracy. This fact was one of the reasons for the late President Soekarno to organize the state system of Guided Democracy which made more distant still a general election.

The birth of the New Order in 1966, which agreed to implement Pancasila and the 1945 Constitution, renewed the election as a democratic instrument. After long preparation involving extensive and often inconclusive debates and discussions about the Election Law and other laws governing elections, the se-

cond general election in Indonesia's history as a free nation, and the first based on the 1945 Constitution, was successfully conducted in July 1971.

The 1971 election was an important starting point because it further encouraged the change of Indonesia's political structure which was a precondition for political stability which, in turn, was a condition for the implementation of development in all fields.

As the functional groups became firmly established in one powerful body under the banner of Golkar, one year before the 1971 General Election the other political parties began to gather into two groups: the United Development Group consisted of the Moslem parties NU, Parmusi, PSII and Perti; the Democratic Development Group consisted of the Nationalist Party (PNI), the Christian Parkindo, the Catholic Party, IPKI and Murba. Approaching the MPR Session the issue of fusing the parties, as a continuation of the simplification of the party system, became more heated. In January 1973, two months before the Session, there had already been formed the United Development Party (PPP) as a fusion of the Islamic parties gathered in the United Development Group, and the Indonesian Democratic Party (PDI) from the fusion of the Democratic Development Group. This resulted in there being only three contestants in the 1977 and 1982 elections: two political parties and the Functional Group.

The 1977 and 1982 elections basically continued the 1971 election policy, in the framework of putting into practice Pancasila and the 1945 Constitution. Within that framework, the conducting of general elections every five years has grown to become a reality so that the people of our nation have become rich in experience in putting into practice their ideology and constitution. It is proper that we approved this fact because when we look back we will conclude that the weak commitment of the people to the state's constitution has given opportunities which have been used by the government and leadership of the political parties, before 1965, to always make their own interpretation of the constitution that fitted into the political ambitions of one group.

THE DUAL FUNCTION OF THE INDONESIAN ARMED FORCES

One of the topics discussed at the recently held Indonesian Armed Forces (ABRI) High Command Conference in Bandung was the issue of ABRI's dual-function. This issue has been one of the most sensitive issues in the Indonesian politics since the early 1950s. Some of those who criticize it probably have misunderstood, some others -- especially the civil servants -- may feel that their careers have been limited due to the great number of ABRI members in the civil service. There are others who are influenced by foreign literature and the "civil-military dichotomy" bias. However, there are also others who may have based their criticism on objective analyses and goodwill.

Defence and Security Minister General M. Yusuf in a press conference following the closing of the ABRI High Command Meeting stated that "by continuing to carry out its dual-function and to participate in non-military affairs ABRI has nothing else in mind but to serve the nation for the sake of the perpetuation of the Indonesian State and Nation based on Pancasila and the 1945 Constitution." Similar assurances were also delivered by President Soeharto at the ceremony commemorating 36th Armed Forces Day in October 1981. In his speech President Soeharto said that ABRI's dual function would not lead to militarism, authoritarianism and totalitarianism but would encourage the development of Pancasila Democracy. Thus, he clarified ABRI's dual-function as not only ABRI's responsibility but as one of the important issues for the Indonesian nation, as ABRI is the backbone to preserve the unity and integrity of the Indonesian nation.

In order to understand the role of ABRI in non-military affairs one should look back at the history of the Indonesian struggle for independence during the 1940s. Unlike those in many countries, especially in the Western countries, the Indonesian Armed Forces were born firstly as freedom fighters. They originated from the people and now always consider themselves as part of the

people so that they assume the responsibility of the people's security and prosperity. Therefore, ABRI's dual-function (i.e. its participation in socio-political affairs, in the government, and in national development) is not based on its own interests, but is an expression of ABRI's responsibility or positive role in social, political, cultural and economic fields apart from the military function. This conforms to General Yusuf's statement that ABRI's dual-function and active participation in non-military affairs is, above all, to spur the growth and fulfilment of political and economic democracy in the country.

Many of the criticism against ABRI's dual function were directed toward its implementation, especially against the great number of ABRI personnel in the civil service. The number and the quality of those ABRI members has given the impression that the assignment of ABRI members in the civil service was motivated only by employment seeking. Although the Minister of Defence and Security has ordered a strict selection of ABRI members who will be assigned to the civil service -- and although the number of ABRI members in the civil service is actually smaller than what has been rumoured -- resentment toward ABRI's dual-function is continuing. ABRI members in the civil service have been criticized for being more loyal to the military hierarchy rather than to the civilian chain of command. Thus, it seems that the criticism against ABRI's dual-function was mainly directed toward the performance of ABRI's participation in non-military affairs rather than the concept itself.

This can be explained by the fact that most people realized that the role of ABRI -- as a socio-political force -- in non-military affairs emerged and developed due to the weaknesses and shortcomings in the social-political fields which threatened the efforts to achieve national objectives. Since the early 1950s -- when the civilian political parties were busily engaged in power struggles -- ABRI has been the only social force which remains intact to perform its task of restoring a healthy democratic life and in overcoming other national problems, such as national development and national integration. Furthermore, history has shown that although at least twice in the Indonesian history -- during the Second War of Independence and on the 1st of October, 1965 -- ABRI was practically the "most important" participant in Indonesian political life, it did not use the opportunity to create a military dictatorship even if at that time no one could prevent it from doing so. On the contrary, ABRI tried to encourage other social forces to participate in national development. However, the negative reaction to ABRI's dual-function seems to prevail.

Accordingly, the ABRI High Command Conference has clearly formulated ABRI's dual-function and participation in non-military affairs which will become the basic guide for every serviceman in performing his duties in the service of the state and nation. The formulation is necessary as to ensure that

ABRI's dual-function and involvement in non-military affairs does not kill democracy and other social forces' initiative and participation in the political and economic fields. General Yusuf stated that ABRI's dual-function and participation in non-military affairs is to ensure the attainment of unity among all layers of society by promoting the growth of economic and political democracy. He added that there was nothing in the formulation that aimed to disrupt political democracy or unsettle or control the economy and he attributed the dual-function as the historical role of ABRI because it is inseparable from the people.

With the new clear formulation of ABRI's dual-function it is hoped that ABRI will reduce the intensity of its involvement in non-military affairs and by so doing will gradually give the civilian the opportunity to be more active in the decision-making process in Indonesian politics. This does not necessarily mean that ABRI should abandon its role as a socio-political force, but it should intensify its cooperation with other social forces to achieve national objectives.

Budi S. SATARI

REDUCTION OF OIL PRODUCTION: ITS IMPACT ON THE INDONESIAN ECONOMY

In recent months, the world oil market has been facing a new situation. For the first time since 1973, the oil-producing countries are being forced to reduce their crude oil production significantly. In the extraordinary meeting in Vienna last March, the OPEC countries agreed to limit their total crude production to 17.5 MMBD, namely the 1977 average daily production.

The reduction is a result of the decreasing demand for oil due to the world economic slowdown, to growing energy efficiency, and to increasing substitution of oil by alternative sources. In addition, an increasing output of the non-OPEC countries that entered the world oil market in the last decade, has widened the gap between supply and demand. An oversupply has created an oil glut in the world oil market for almost two years. It was to remove this glut and bring back the oil demand and supply to equilibrium that the OPEC coun-

tries agreed to reduce their crude production. For the first time OPEC acted as a true cartel, since it adjusted crude production rather than crude prices.

The decision to bring down crude production has further implications on the economy of the OPEC countries, particularly those which have low oil production and high economic absorption capacities such as Indonesia. While the problem of most developing countries is how to reduce oil imports, Indonesia has a different problem, namely how to ensure a continuation of oil export earning. It is not clear as yet by how much the country's export will suffer from the reduction in oil export, and how this will affect the economy of the country in the longer-term.

However, the current oil glut has again highlighted the problems relating to imbalances in the country's economic structure. Because of its overdependence on oil and natural gas exports, the country's economy is sensitive to any fluctuation in the world oil market. At present, the government is under pressure to place a greater emphasis on the development of non-oil sectors. In an attempt to boost non-oil exports, a new export strategy has been put forward by the government since last January. If it works properly, this strategy will help to increase the share of non-oil sectors in total exports, which in the last fiscal year is estimated to account to only 18 percent. For the same objective, the government already took some steps in 1978 to encourage non-oil activities, particularly in the manufacturing sector: a massive Rupiah devaluation, major cuts in import tariffs and sales tax on raw materials and components, and sharp increases in the allocation of government expenditures to the manufacturing sector. However, the 1979 oil crisis which gave Indonesia a current account surplus of almost US\$ 3 billion and boosted its official foreign exchange reserves to more than US\$ 7 billion, appeared to have taken away the sense of priority to develop the previously neglected non-oil sectors.

OIL EXPORT AND DOMESTIC ENERGY POLICY

Oil plays a vital role in Indonesia's social and economic development. Oil products meet over 80 percent of the country's commercial energy needs; net oil exports are financing practically all non-oil imports; and oil revenues account for about 70 percent of the government total revenues.

A cheap oil policy for domestic energy consumption as implemented through the provision of heavy subsidies on oil products, especially kerosene, diesel oil and fuel oil, drains the much-needed development funds (the subsidies account for about US\$ 1.5 billion for the current fiscal year). The

growth of domestic oil consumption is now outpacing increases in oil production. In the last decade domestic oil products consumption increased by 11 per cent per year. If unchecked, this will continue to erode the surplus of oil available for export, and may even lead Indonesia to become a substantial oil importer.

Current oil products pricing is a major constraint to any attempt to replacing oil by other indigenous sources. While its objectives are to provide cheap fuel to lower income groups and discourage a shift from oil to wood fuels, this pricing policy clearly looks as a disincentive to potential producers of non-oil resources and encourages the rapidly growing use of oil products rather than other fuels. The rationale for the subsidy on kerosene is that it helps alleviate poverty and improve income distribution, and that an increase in the kerosene to the world level will impose a burden on the poor. However, careful thought should be given to the ways by which the budgetary savings from reduced subsidies could be used to subsidize more efficient alternative forms of energy, such as rural electrification, or to set up replantation programs.

On the export side, an ever increasing domestic oil consumption together with current reduction of crude production will lead to a lower volume of oil export. This will inevitably deteriorate further the country's payments balance which is already in deficit. Under the "high-case" projection of the World Bank, it is estimated that in the last fiscal year, the country's current account deficit amounted to US\$ 2.5 billion. This deficit (on current account) is expected to widen in the current fiscal year to at least US\$ 4.4 billion. The country's foreign exchange reserves also declined from US\$ 7.9 billion in April 1981 to US\$ 6.7 billion in November 1981. At the end of the last fiscal year, the country's foreign exchange reserves was US\$ 6.5 billion.

The effects of declining oil earning may be offset through various measures, including a revision of the 1982/1983 National Budget. This revision can be undertaken by four ways, namely by lowering the development budget; by increasing taxes; by increasing the flow of foreign aid and loans; and by minimizing subsidies on oil products, food and fertilizer. However, the urgency for the government to create jobs for millions of people in the coming years, necessitates the maintenance of a rapid economic development, and therefore closes out the possibility of development budget reduction. The remaining three measures can be pursued either separately or simultaneously.

Raymond ATJE

The Outcome of the 1982 General Election

SOEROSO

The General Elections were held in Indonesia on May 4, 1982. The purpose of the General Elections was to elect 364 candidates of the House of Representatives (DPR) and a larger number of candidates in regional legislative assemblies (DPRD). The DPR's total membership is 460, of which the remaining 96 seats are filled by Presidential appointment: 75 seats for the Armed Forces (ABRI) who do not have legal voting rights, and 21 seats for non-ABRI functional groups.

The People's Consultative Assembly (MPR), the state's highest policy-making body, is made up of the 460 DPR members augmented by 460 delegates comprising: (1) delegates from the regional territories (140); (2) politicians and functionaries (113); (3) ABRI and non-ABRI functional groups (207).

For the first time more than 300,000 eligible voters of East Timor elected their 4 DPR members.

On June 14, 1982, the General Election Board (LPU) announced the final tallies for the 1982 election.¹ Golkar (Functional Group) gathered 64.34 percent of the total vote, the Moslem PPP (United Development Party) 27.78 percent and the PDI (Indonesian Democratic Party) 7.88 percent. The figures also show the distribution of the 364 elected seats in the DPR, namely 246 for Golkar, 94 for PPP and the remaining 24 seats for PDI.

¹*Kompas*, June 15, 1982.

In comparing the results of the 1982 election to those of 1977, this essay will consider the following aspects:

1. changes in the proportions of valid votes and DPR seats;
2. demographic changes in popular electoral participation;
3. the distribution of valid votes and increases at the national level;
4. changes in the distribution of valid votes at the provincial level;
5. changes in the distribution of DPR seats in each province.

PROPORTIONS OF VOTES CAST

Comparing the results of the 1982 election at the national level (excluding East Timor) with those of the 1977 General Election we note the following changes: PPP increased its valid popular votes by 2,127,716, but its share of the total valid votes decreased from 29.29 percent to 27.90 percent. Meanwhile, Golkar increased its valid votes by 8,275,020 and its share of the total valid votes increased from 62.11 percent to 64.19 percent, whereas PDI gathered an increased of 413,901 valid votes but its share of the total fell from 8.60 percent to 7.91 percent. As a consequence of these shifts in voter preference and due to the principles of proportional representation in combination with a list system of the Indonesian election system, the number of DPR seats held by Golkar increased by 10, but both the PPP and PDI lost 5 seats each. In addition, Golkar obtained the 4 DPR seats allotted to the new electorate of East Timor.

This comparison signifies that there are only minor changes in the composition of the new DPR as a manifest expression of the constellation of political opinion. Therefore, it is difficult to foresee the necessity of basic or drastic changes in political directions over the next five years. Nevertheless dynamic phenomena in Indonesian voting will be observed below.

POPULAR PARTICIPATION

The statistics reported in Table 1 provide some background information on the 1982 election, especially at the national level. The portion of the total population registered as having the right to vote increased from 54.42 percent to 56.05 percent, whereas the share of registered voters casting valid votes increased from 90.57 percent to 91.47 percent. From this observation we conceive that the increase in total population brings with it a greater increase in the proportion of registered voters and an even greater increase in valid votes cast. All of this suggests that popular participation in the 1982 election was greater than that of the 1977 election.

Table 1

POPULAR ELECTORAL PARTICIPATION IN ELECTIONS OF 1977 AND 1982

	1977 ^a	1982 ^b	Increase ^c
1. Total population of Indonesian citizen	129,842,846	146,531,733	16,688,887 (12.85%)
2. Registered voters	70,662,155	82,133,639	11,471,484 (16.23%)
3. Total valid votes	63,998,344	75,126,306	11,127,962 (17.39%)
4. % of total registered voters	54.42%	56.05%	1.63%
5. % of total population casting valid votes	49.29%	51.27%	1.98%
6. % of registered voters casting valid votes	90.57%	91.47%	0.90%

Note: ^aIncluding West Irian; from *Data Hasil Pemilu 1977: Lampiran B*, (Jakarta: Dewan Pimpinan Pusat Golongan Karya, 1977), p. B-3.

^bIncluding East Timor; from *Kompas*, June 15, 1982 and *Suara Karya*, June 16, 1982.

^cItems 1, 2, & 3 in parentheses show the percentage increase from 1977 to 1982; items 4, 5, & 6 show the percentage difference.

Table 2 shows that a large proportion of the new registered voters in the 1982 election cast their votes. And if we assume that the new registered voters are youth, this tendency disproves the validity of the so-called "Golongan Putih" (abstaining group) hypothesis of Indonesian voting behaviour.¹

Table 2

INCREASE IN POPULAR ELECTORAL PARTICIPATION

Increase in	1971 to 1977 ^a	1977 to 1982 ^b
1. Total Population of Indonesian Citizen	14,617,888	16,188,887
2. Registered Voters	11,930,762	11,164,977
(2)/(1) x 100%	81.62%	69.97%
3. Total Valid Votes	8,795,930	10,705,311
(3)/(2) x 100%	73.72%	95.88%

Note: ^aIncluding West Irian; from *Data Hasil Pemilu 1977: Lampiran B*, (Jakarta: Dewan Pimpinan Pusat Golongan Karya, 1977), p. B-3.

^bIncluding West Irian but excluding East Timor; from *Kompas*, June 15, 1982 and *Suara Karya*, June 16, 1982.

¹See Harry Tjan Silalahi, "The General Elections: The Results and Role of Traditional Authority Relations in Modern Indonesian Society", *The Indonesian Quarterly*, Vol. V, No. 3 (July 1977), pp. 3-33.

DISTRIBUTION AND INCREASE OF VALID VOTES AT THE NATIONAL LEVEL

The figures presented in Table 3 (column 3) are based on the assumption that voters follow the same voting preference in the 1982 election as they showed in the 1977 election results, and that any increase in the numbers of valid voters using their right to vote in 1982 would follow a similar voting behaviour. From Table 3 it seems obvious that the voting behaviour is not a static phenomenon. PPP, Golkar and even PDI obtained a nominal increase in valid votes, but it was only Golkar that obtained a "real" increase (see note b on Table 3) by drawing more than one and a half million more votes than might be expected on the basis of the increase in registered voters casting their votes. Although the figures show that both PPP and PDI gained an increase in nominal terms, their shares declined in real terms.

Table 3

DISTRIBUTION OF VALID VOTES AT THE NATIONAL LEVEL*

	1977 Results	Expected Increase ^a	Expected 1982 Results	Observed 1982 Results	Observed Increase	Real Increase or Decrease ^b
	(1)	(2)	(3 = 1 + 2)	(4)	(5 = 4 - 1)	(6 = 4 - 3)
PPP	18,743,491	3,168,198	21,911,684	20,871,207	2,127,716	-1,040,477
Golkar	39,750,096	6,718,213	46,468,309	48,025,116	8,275,020	+1,556,807
PDI	5,504,757	930,231	6,434,988	5,918,658	413,901	-516,330
Total	63,998,344	10,816,637	74,814,981	74,814,981	10,816,637	

Note: * Excluding East Timor.

^aThis is based on the assumption that voter preference in 1982 is exactly the same as in 1977. Under that assumption all increases in the number of votes gained by one of the contestants would have to be accounted for by an increase in the size of total valid votes. Since we know that the shares for PPP, Golkar, and PDI are 29.29 percent, 62.11 percent and 8.60 percent respectively, the size of the expected increase in valid votes gained by each of the contestants can be calculated by multiplying each of these respective portions of total valid votes in 1977 by 10,816,637.

^bThis is a measure of the extent to which the division of valid votes among the three contestants in 1982 elections deviates from that which might be expected on the basis of the 1977 election results.

In spite of gaining a substantial increase of valid votes in nominal terms, PDI suffered by the defection of more than 800,000 of its former supporters in

thirteen provinces. PPP, meanwhile, suffered by the defection of more than 200,000 of its former supporters in seven provinces (see Appendices III and V).

From the distribution of DPR seats in Appendix II we can observe that Golkar failed to obtain a simple majority in Aceh Special Region, and that even in the Jakarta Special Territory Golkar would not have gained a majority if PPP and PDI had combined their seats. However, Golkar was able to maintain its majority position in other provinces.

Table 4 clearly shows that support for Golkar is most prominent in the outer islands, whereas that of PPP and PDI lies in Java.

Table 4

DISTRIBUTION OF VALID VOTES AND DPR SEATS IN JAVA AND
OUTER ISLANDS IN THE 1982 ELECTION

	Valid Votes			DPR Seats		
	Outer Islands	Java	Total	Outer Islands	Java	Total
PPP	6,206,200 (22.09%)	14,665,680 (31.18%)	20,871,680 (27.78%)	40 (21.39%)	54 (30.51%)	94 (25.82%)
Golkar	20,584,380 (73.26%)	27,750,344 (59.01%)	48,334,724 (64.34%)	141 (75.40%)	105 (59.32%)	246 (67.58%)
PDI	1,306,940 (4.65%)	4,612,762 (9.81%)	5,919,702 (7.88%)	6 (3.21%)	18 (10.17%)	24 (6.59%)
Total	28,097,520 (100.00%)	47,028,786 (100.00%)	75,126,306 (100.00%)	187 (100.00%)	177 (100.00%)	364 (100.00%)

Note: Compiled from Appendices II-V.

DISTRIBUTION OF VALID POPULAR VOTES AT THE PROVINCIAL LEVEL

Table 5 shows that the relatively strong footholds of PPP in 1982 were similar to those of 1977, namely Aceh, West Sumatra, South Sumatra, Lampung, Jakarta, East Java, South Kalimantan, East Kalimantan and the Lesser Sunda Islands. The relatively strong footholds of PDI in 1982 and 1977 were Jakarta, Central Java, Yogyakarta and Bali. The share of PDI votes slightly increased in Lampung, West Java, East Java and West Kalimantan, but slight-

ly decreased in North Sumatra and West Irian. However, the increase or decrease of voters cannot sufficiently explain the dynamics of Indonesian voting behaviour. Rather, it is necessary to examine the "real" increase or decrease of each contestant at the provincial level.

Table 5

DISTRIBUTION OF VALID VOTES IN GENERAL ELECTIONS
OF 1977 AND 1982 (%)

Province	1977 ^a			1982 ^b		
	PPP	Golkar	PDI	PPP	Golkar	PDI
1. Aceh Special Region	57.27	41.17	1.55	59.08	36.97	3.95
2. North Sumatra	22.22	66.46	11.32	20.44	72.54	7.01
3. West Sumatra	32.45	66.50	1.05	38.77	60.40	0.83
4. Riau	33.92	63.32	2.75	25.79	71.69	2.52
5. South Sumatra	42.62	49.82	7.55	38.05	56.03	5.92
6. Jambi	15.66	83.49	0.84	13.81	84.80	1.39
7. Bengkulu	21.86	76.44	1.69	26.14	70.62	3.24
8. Lampung	30.79	61.84	7.36	30.02	59.36	10.62
9. West Java	28.54	66.27	5.19	27.17	63.34	9.49
10. Jakarta Special Territory						
of the Capital City (DKI)	43.46	39.27	17.26	39.20	44.99	15.81
11. Central Java	28.28	52.62	19.09	27.73	60.47	11.80
12. Yogyakarta Special Region	23.23	56.57	20.19	23.34	60.55	16.10
13. East Java	36.04	58.84	5.11	36.63	56.78	6.59
14. West Kalimantan	21.82	68.87	7.29	20.73	70.99	8.28
15. Central Kalimantan	26.64	69.86	3.51	14.55	84.22	1.23
16. South Kalimantan	49.40	49.53	1.01	36.65	59.25	1.10
17. East Kalimantan	35.42	56.96	7.61	31.85	61.30	6.85
18. North Sulawesi	17.60	72.88	9.49	6.76	87.13	6.11
19. Central Sulawesi	19.28	79.30	1.41	15.51	81.24	3.25
20. Southeast Sulawesi	3.12	96.10	0.77	2.56	96.94	0.49
21. South Sulawesi	14.01	83.18	6.80	10.23	89.18	0.58
22. Bali	1.64	85.37	12.99	1.94	88.35	9.71
23. West Lesser Sunda Islands	36.63	57.48	5.87	28.15	68.61	3.24
24. East Lesser Sunda Islands	1.94	90.28	7.76	1.30	96.35	2.35
25. Maluku	19.02	71.85	9.11	18.96	75.24	5.79
26. West Irian	4.24	86.88	8.90	3.17	92.48	4.35
27. East Timor	...	...	...	0.22	99.45	0.33
Total	29.29	62.11	8.60	27.78	64.34	7.88

Source: ^a*Hasil Pemilihan Umum 1977: Buku Pelengkap V Pemilihan Umum*, p. 100-101.

^b*Kompas*, June 15, 1982 and *Suara Karya*, June 16, 1982.

Assuming that in the 1982 election voters follow the same voting pattern they expressed in the 1977 election, a breakdown of the nominal increases of valid votes at the provincial level suggests that PPP obtained a "real" increase in seven provinces (Aceh, West Sumatra, Bengkulu, Lampung, Yogyakarta, East Java and Bali), but suffered a "real" decrease in other provinces (see Appendix III). Meanwhile Golkar had a "real" decrease in six provinces (Aceh, West Sumatra, Bengkulu, Lampung, West Java and East Java), but gained a "real" increase in other provinces (see Appendix IV). PDI gained a "real" increase in eight provinces (Aceh, Jambi, Bengkulu, Lampung, East Java, West Java, South Kalimantan and Central Sulawesi) but suffered a "real" decrease in other provinces (see Appendix V). The "real" increase or decrease obtained by each contestant is an indicator of the dynamics of Indonesian voting behaviour. However, it is still inadequate as an explanation of voting behaviour because it seems this indicator is still too general. To have a more detailed indicator as an adequate explanation of Indonesian voting behaviour, we would have to break down further the nominal increases or decreases which is not attempted in this essay.

CHANGES IN THE DISTRIBUTION OF DPR SEATS IN EACH PROVINCE

The strength or intensity of "real" increases or decreases can be gauged from their effects on the distribution of DPR seats (see Table 6).

Table 6 shows that PPP lost one DPR seat to PDI in West Java and three DPR seats in South Sulawesi, South and Central Kalimantan to Golkar. Golkar lost two seats in West and East Java to PDI, whereas PDI lost 8 seats that were accredited to Golkar in North Sumatra, Central Java, East Kalimantan, North Sulawesi and East Lesser Sunda Islands. Meanwhile, the decrease in the allotted DPR seats in Central Java seemed most likely to be suffered by PPP and that in East Java by Golkar. But Golkar reaped the benefits of the increase in the allotted DPR seats in North Sumatra, South Sumatra and Jakarta (see Appendix I). In summary, we can observe that to a certain extent the recent elections were almost a two-way contest between Golkar and PDI, in terms of gains and losses of DPR seats.

From the assumption that former voters continued to follow the same voting preference, and apart from the gains and losses of DPR seats, we can construct the following table based on Appendices III, IV, V on the breakdown of nominal increases in votes at the provincial level.

Table 6

CHANGES IN THE DISTRIBUTION OF DPR SEATS AMONG
THE ORGANIZATIONS PARTICIPATING IN THE GENERAL ELECTIONS OF 1982

NATIONAL TOTALS:		1977	1982	Change
	PPP	99	94	-5
	Golkar	232	246	+ 14
	PDI	29	24	-5

CHANGES BY PROVINCE:				
Gains:		Losses:		
PPP:		West Java	(1 seat)	
		Central Java	(1 seat)	
		South Sulawesi	(1 seat)	
		South Kalimantan	(1 seat)	
		Central Kalimantan	(1 seat)	
		Total: 5 Provinces	(5 seats)	
Golkar:	North Sumatra	(2 seats)	West Java	(1 seat)
	South Sumatra	(1 seat)	East Java	(3 seats)
	Jakarta Special Territory	(1 seat)		
	Central Java	(4 seats)		
	Central Kalimantan	(1 seat)		
	South Kalimantan	(1 seat)		
	East Kalimantan	(1 seat)		
	North Sulawesi	(1 seat)		
	South Sulawesi	(1 seat)		
	West Lesser Sunda Islands	(1 seat)		
	East Timor	(4 seats) ^a		
Total: 11 Provinces		(18 seats)	Total: 2 Provinces (4 seats)	
PDI:	West Java	(2 seats)	North Sumatra	(1 seat)
	East Java	(1 seat)	Central Java	(4 seats)
			East Kalimantan	(1 seat)
			North Sulawesi	(1 seat)
			East Lesser Sunda Islands	(1 seat)
	Total: 2 Provinces		(3 seats)	Total: 5 Provinces (8 seats)

Note: ^aNew seats.

Table 7

REAL INCREASE OR DECREASE OF VALID VOTES AT THE PROVINCIAL LEVEL

	"Real" increase	"Real" decrease
PPP:	Aceh Special Region West Sumatra Bengkulu Lampung Yogyakarta Special Region East Java Bali	North Sumatra Riau South Sumatra Jambi Jakarta (DKI) West Kalimantan East Kalimantan North Sulawesi Central Sulawesi Southeast Sulawesi West Lesser Sunda Islands East Lesser Sunda Islands Maluku West Irian
Golkar:	Riau Jambi Yogyakarta Special Region West Kalimantan Central Sulawesi Southeast Sulawesi Bali West Lesser Sunda Islands Maluku West Irian	Aceh Special Region Bengkulu Lampung West Sumatra
PDI:	Aceh Special Region Jambi Bengkulu Lampung South Kalimantan Central Sulawesi	West Sumatra Riau South Sumatra Jakarta (DKI) Yogyakarta Special Region West Kalimantan Central Kalimantan Southeast Sulawesi South Sulawesi Bali West Lesser Sunda Islands Maluku West Irian

(Compiled from Appendices II-V).

The above table shows that PPP was the only contestant who obtained a "real" increase in West Sumatra; Golkar was the only contestant who gained "real" increases in Riau, West Kalimantan, Southeast Sulawesi, West Lesser Sunda Islands, Maluku, and West Irian; and PDI was the only contestant who gained a "real" increase in South Kalimantan. Meanwhile PPP was the only

organization that suffered "real" decreases in Jambi, North Sulawesi, Central Sulawesi, and East Lesser Sunda Islands; Golkar was the only organization that suffered "real" decreases in Aceh, Bengkulu, and Lampung; and PDI was the only organization that suffered "real" decreases in Yogyakarta Special Region, Central Kalimantan, South Sulawesi, and Bali. Thus, we could conclude that there was a triple two-way contest among the three organizations participating in the general election of 1982.

Appendix I

ALLOCATION OF DPR SEATS AT EACH PROVINCE IN ELECTIONS OF 1977 AND 1982

Province	1977	1982	Change ^a
1. Aceh Special Region	10	10	..
2. North Sumatra	18	19	+ 1
3. West Sumatra	14	14	..
4. Riau	6	6	..
5. South Sumatra	10	11	+ 1
6. Jambi	6	6	..
7. Bengkulu	4	4	..
8. Lampung	8	8	..
9. West Java	50	50	..
10. Jakarta Special Region	12	13	+ 1
11. Central Java	52	51	- 1
12. Yogyakarta Special Region	6	6	..
13. East Java	59	57	- 2
14. West Kalimantan	7	7	..
15. Central Kalimantan	6	6	..
16. South Kalimantan	10	10	..
17. East Kalimantan	6	6	..
18. North Sulawesi	6	6	..
19. Central Sulawesi	4	4	..
20. Southeast Sulawesi	4	4	..
21. South Sulawesi	23	23	..
22. Bali	8	8	..
23. West Lesser Sunda Islands	6	6	..
24. East Lesser Sunda Islands	12	12	..
25. Maluku	4	4	..
26. West Irian	9	9	..
27. East Timor ^b	(na)	(4)	(+ 4)
Total ^c	360	360 (364)	.. (+ 4)

Note: ^a+ : increase; - : decrease; .. : no change.

^bBased on Presidential Decision No. 15/1981, they are subtracted from the 25 non-ABRI functional groups.

^c(...) : including East Timor; ... : excluding East Timor.

Appendix 11

INCREASE OR DECREASE OF DPR SEATS OBTAINED BY THE ORGANIZATIONS
PARTICIPATING IN ELECTIONS OF 1977 AND 1982

Province	PPP	Golkar	PDI	PPP	Golkar	PDI	Change ^a		
	1977			1982			PPP	Golkar	PDI
1. Aceh Special Region	6	4	0	6	4	0	..	..	..
2. North Sumatra	4	12	2	4	14	1	..	+ 2	- 1
3. West Sumatra	5	9	0	5	9	0	..	..	..
4. Riau	2	4	0	2	4	0	..	..	..
5. South Sumatra	4	5	1	4	6	1	..	+ 1	..
6. Jambi	1	5	0	1	5	0	..	..	..
7. Bengkulu	1	3	0	1	3	0	..	..	..
8. Lampung	2	5	1	2	5	1	..	..	..
9. West Java	14	33	3	13	32	5	- 1	- 1	+ 2
10. Jakarta Special Region	5	5	2	5	6	2	..	+ 1	..
11. Central Java	15	27	10	14	31	6	- 1	+ 4	- 4
12. Yogyakarta Special Region	1	4	1	1	4	1	..	..	..
13. East Java	21	35	3	21	32	4	..	- 3	+ 1
14. West Kalimantan	1	5	1	1	5	1	..	..	..
15. Central Kalimantan	2	4	0	1	5	0	- 1	+ 1	..
16. South Kalimantan	5	5	0	4	6	0	- 1	+ 1	..
17. East Kalimantan	2	3	1	2	4	0	..	+ 1	- 1
18. North Sulawesi	1	4	1	1	5	0	..	+ 1	- 1
19. Central Sulawesi	1	3	0	1	3	0	..	..	..
20. Southeast Sulawesi	0	4	0	0	4	0	..	..	..
21. South Sulawesi	3	20	0	2	21	0	- 1	+ 1	..
22. Bali	0	7	1	0	7	1	..	..	..
23. West Lesser Sunda Islands	2	4	0	2	4	0	..	..	..
24. East Lesser Sunda Islands	0	11	1	0	12	0	..	+ 1	- 1
25. Maluku	1	3	0	1	3	0	..	..	..
26. West Irian	0	8	1	0	8	1	..	..	..
27. East Timor ^b	-	-	-	0	4	0	-	+ 4	-
Total ^c	99	232	29	94	246	24	- 5 (- 5)	+ 14 (+ 18/ - 4)	- 5 (+ 3/ - 8)

Note: ^a + : increase; - : decrease; .. : no change^b New seats.^c (...) : bruto; ... : netto.

Appendix III

VALID VOTES FOR PPP*

Province	Valid Votes		Increase or decrease of valid votes		Results of 1977 elections (%)	Differences (%)
	1977 ^a	1982 ^b	Votes	%		
1. Aceh Special Region	641,256	772,819	131,563	69.81	57.27	12.54
2. North Sumatra	706,289	801,296	95,007	12.83	22.21	- 9.38
3. West Sumatra	460,024	615,789	155,765	91.19	32.45	58.74
4. Riau	270,374	276,678	6,304	2.29	33.92	-31.63
5. South Sumatra	713,310	847,045	133,735	24.20	42.62	-18.42
6. Jambi	93,797	105,337	11,540	7.05	15.66	- 8.61
7. Bengkulu	59,676	94,959	35,283	39.11	21.86	17.25
8. Lampung	525,527	661,719	136,192	27.39	30.79	3.40
9. West Java	3,413,310	3,687,132	273,822	16.98	28.55	-11.57
10. Jakarta Special Region	1,085,065	1,268,878	183,809	24.83	43.46	-18.63
11. Central Java	3,082,757	3,640,383	557,626	24.99	28.29	- 3.30
12. Yogyakarta Special Region	304,510	336,664	32,154	24.47	23.23	1.24
13. East Java	5,230,707	5,732,623	501,916	44.14	36.04	8.10
14. West Kalimantan	218,474	260,722	42,248	16.46	21.83	- 5.37
15. Central Kalimantan	106,361	76,392	-29,969	-23.83	26.63	-50.46
16. South Kalimantan	417,590	426,485	8,895	3.86	49.40	-45.54
17. East Kalimantan	162,621	183,280	20,659	17.76	35.43	-17.67
18. North Sulawesi	165,026	76,060	-88,966	-47.38	17.62	-65.00
19. Central Sulawesi	102,552	104,343	1,791	1.27	19.28	-18.01
20. Southeast Sulawesi	12,791	12,775	-16	-0.02	3.12	- 3.14
21. South Sulawesi	391,420	317,824	-73,596	-23.59	49.31	-72.90
22. Bali	19,318	26,444	7,126	3.79	1.65	2.14
23. West Lesser Sunda Islands	398,234	371,509	-26,725	-11.52	36.64	-48.16
24. East Lesser Sunda Islands	25,451	19,100	-6,351	- 3.88	1.94	- 5.82
25. Maluku	115,694	134,597	18,903	18.57	19.25	- 0.68
26. West Irian	21,353	20,354	-999	- 0.72	4.24	- 4.96
Total	18,743,491	20,871,217	2,127,716	19.67	29.29	- 9.62

Note: * Excluding East Timor.

Source: ^aHasil Pemilihan Umum Tahun 1977: Buku Pelengkap V Pemilihan Umum 1977, (Jakarta: Lembaga Pemilihan Umum, 1978), pp. 100-101.

^bKompas, June 15, 1982 and Suara Karya, June 16, 1982.

Appendix IV

VALID VOTES FOR GOLKAR*

Province	Valid Votes		Increase or decrease of valid votes		Results of 1977 elections (%)	Difference (%)
	1977 ^a	1982 ^b	Votes	%		
1. Aceh Special Region	460,992	483,570	22,578	11.98	41.17	-29.19
2. North Sumatra	2,112,550	2,843,427	730,877	98.66	66.45	32.21
3. West Sumatra	942,752	959,492	16,740	9.80	66.50	-56.70
4. Riau	504,724	769,131	264,407	95.85	66.33	32.52
5. South Sumatra	833,804	1,247,287	413,483	74.83	49.82	25.01
6. Jambi	500,091	646,591	146,500	89.57	83.49	6.08
7. Bengkulu	208,684	256,485	47,801	52.99	76.44	-23.45
8. Lampung	1,055,525	1,308,274	252,749	50.83	61.84	-11.01
9. West Java	7,925,728	8,596,458	670,730	41.60	66.27	-24.67
10. Jakarta Special Region	980,452	1,456,216	475,764	64.26	39.27	24.99
1. Central Java	5,735,379	7,940,158	2,204,779	98.80	52.62	46.12
2. Yogyakarta Special Region	741,611	873,260	131,649	100.20	56.58	43.62
3. East Java	8,538,502	8,884,252	345,750	30.41	58.85	-28.44
4. West Kalimantan	689,376	892,801	203,425	79.24	68.88	10.36
5. Central Kalimantan	278,912	442,197	163,285	129.85	69.85	60.00
6. South Kalimantan	419,095	637,397	218,302	94.72	49.58	45.14
7. East Kalimantan	261,520	352,746	91,226	78.41	56.96	21.45
8. North Sulawesi	682,484	979,486	297,002	158.18	72.88	85.30
9. Central Sulawesi	421,749	546,468	124,719	88.83	79.30	9.53
10. Southeast Sulawesi	393,521	483,598	90,077	100.79	96.10	4.69
1. South Sulawesi	2,379,834	2,769,736	389,902	124.99	85.18	39.81
2. Bali	1,002,143	1,203,101	200,958	107.00	85.37	21.63
3. West Lesser Sunda Islands	624,900	905,280	280,380	120.86	57.48	63.38
4. East Lesser Sunda Islands	1,182,116	1,419,204	237,088	144.94	89.67	55.27
5. Maluku	436,910	534,086	97,176	95.47	71.85	23.62
6. West Irian	436,742	594,415	157,673	112.71	86.85	25.86
Total	39,750,096	48,025,116	8,275,020	76.50	62.11	14.39

Note: * Excluding East Timor.

Source: ^a*Hasil Pemilihan Umum Tahun 1977: Buku Pelengkap V Pemilihan Umum 1977*, (Jakarta: Lembaga Pemilihan Umum 1978), pp. 100-101.
^b*Kompas*, June 15, 1982 and *Suara Karya*, June 16, 1982.

Appendix V

VALID VOTES FOR PDI*

Province	Valid Votes		Increase or decrease of valid votes		Results of 1977 elections (%)	Differences (%)
	1977 ^a	1982 ^b	Votes	%		
1. Aceh Special Region	17,390	51,700	34,310	18.21	1.55	16.66
2. North Sumatra	359,937	274,840	-85,097	-11.49	11.33	-22.83
3. West Sumatra	14,825	13,129	-1,696	-0.99	1.05	-2.04
4. Riau	21,922	27,072	5,150	1.87	2.75	-0.88
5. South Sumatra	126,437	131,787	5,350	0.97	7.56	-6.59
6. Jambi	5,062	10,589	5,527	3.38	0.84	2.54
7. Bengkulu	4,627	11,752	7,125	7.90	1.69	6.21
8. Lampung	125,755	234,066	108,311	21.78	7.36	14.42
9. West Java	620,462	1,288,416	667,954	41.42	5.18	36.24
10. Jakarta Special Region	430,905	511,710	80,805	10.91	17.26	-6.35
11. Central Java	2,080,580	1,549,749	-530,831	-23.79	19.09	-42.88
12. Yogyakarta Special Region	264,671	232,257	-32,414	-24.67	20.19	-44.86
13. East Java	741,276	1,030,530	289,354	25.45	5.10	20.35
14. West Kalimantan	93,028	104,070	11,042	4.30	9.29	-4.99
15. Central Kalimantan	13,999	6,435	-7,564	-6.02	3.50	-9.52
16. South Kalimantan	8,554	11,833	3,279	1.42	1.01	0.41
17. East Kalimantan	34,958	39,418	4,460	3.83	7.61	-3.78
18. North Sulawesi	88,937	68,666	-20,271	-10.80	9.49	-20.29
19. Central Sulawesi	7,481	21,379	13,898	9.90	1.40	8.50
20. Southeast Sulawesi	3,161	2,468	-693	-0.77	0.70	-1.47
21. South Sulawesi	22,484	18,109	-4,375	-1.40	0.80	-2.20
23. Bali	152,475	132,209	-20,266	-10.79	12.99	-23.78
23. West Lesser Sunda Islands	63,842	42,713	-21,669	-9.34	5.87	-15.21
24. East Lesser Sunda Islands	101,816	34,656	-67,160	-41.06	7.78	-48.84
25. Maluku	55,403	41,115	-14,288	-14.04	9.11	-23.15
26. West Irian	44,770	27,990	-16,780	-11.99	8.90	-20.89
Total	5,504,757	5,918,658	413,901	3.83	8.60	-4.77

Note: * Excluding East Timor.

Source: ^aHasil Pemilihan Umum Tahun 1977: Buku Pelengkap V Pemilihan Umum 1977, (Jakarta: Lembaga Pemilihan Umum, 1978), pp. 100-101.

^bKompas, June 15, 1982 and Suara Karya, June 16, 1982.

The Armed Forces in Indonesian Society*

Harsja W. BACHTIAR

It is essential to begin the present endeavour to interpret the social realities pertaining to the role of the Armed Forces in Indonesian society by emphasizing the fact that the Indonesian Armed Forces consist of four services, namely the Army, the Navy, the Air Force, and the Police. Usually, in discussions of the Armed Forces, only the Army is subjected to the discussions, the presence of Navy and Air Force personnel being ignored, although the present Deputy Commander-in-Chief of the Armed Forces is undeniably an Admiral, who is also Commander of the powerful security apparatus, the Command for the Restoration of Security and Order, Kopkamtib. At the Department of Defence and Security the Chief of the Operation Staff is a Vice-Admiral; the Inspector General is an Air Vice-Marshall; the Assistant for Communications and Electronics is an Air Vice-Marshall; the Assistant for Logistics, Material Development and Installations is a Rear-Admiral; and so on.

The inclusion of the National Police, previously an autonomous structure, as an integral component of the Armed Forces occurred not before 1964, nearly twenty years after the independence of the Republic of Indonesia was proclaimed. Unlike the three military services which are each headed by a Chief of Staff, the National Police is headed by a Chief of Police.

According to the Minister of Information, membership in the Armed Forces declined from 650.000 men in 1966 to 415.000 men ten years later, the number expected to stabilize at about 300.000 men. Meanwhile, the International Institute of Strategic Studies reported in 1979 that the Army has 180.000 men, the Navy has 39.000 men and the Air Force has 20.000 men. As usual the report makes no mention of the National Police which had 118.000 men. With

*Paper presented at the Third Korea-Indonesia Conference, Bali, December 14-16, 1981.

a total number of population in Indonesia of about 149.000.000 (1981), the size of the Armed Forces is relatively small, especially compared to the reported size of the Armed Forces in the Republic of Korea (619.000 military personnel with a total population of 37.760.000), the Democratic People's Republic of Korea (632.000-672.000 military personnel with a total population of 17.580.000); Japan (241.000 military personnel with a total population of 115.810.000); Pakistan (429.000 military personnel with a total population of 80.170.000); Thailand (216.000 military personnel with a total population of 46.540.000); Vietnam (1.023.000 military personnel with a total population of 50.250.000); and of course India (1.096.000 military personnel with a total population of 652.820.000).

In the endeavour to clarify and acquire an understanding of the role of the Armed Forces in the Indonesian society, the latter is conceived as an extensive self-sufficient social system, made up of the interaction of human beings which on the one hand, is analytically related to a normative order, consisting of values and norms and, on the other hand, is related to the collectively organized population residing within the boundaries of the territory of the Republic of Indonesia, a rather extensive, wide-spread archipelago.

A social system, in sociological thinking, is an interaction system brought about and maintained by a number of human individuals participating as actors, each having ideals, goals, attitudes, sentiments, and other elements of their respective organism, personality and internalized culture. As a patterned normative order a social system contains meaningful and legitimate values as well as differentiated and particularized norms and rules. As a social collectivity it distinguishes between individuals who are members or those who do belong to the collectivity and outsiders.

Since the social system which is the focus of this present discussion refers to Indonesian society as a whole, it is also referred to as the societal system in order to distinguish this total system from the innumerable different social systems which it contains. The Armed Forces can be regarded as one such a social system, assuredly one of the most paramount social systems.

As a member of a given social collectivity each concrete individual has a set of roles to play, depending on his status in this collectivity. Such a concrete individual moreover, is not only a member of one collectivity, for example, the Army, but a member in a diversity of collectivities, such as his own family, his neighbourhood, his mosque, church, or temple; sport club; ethnic societal community; and the like, each collectivity demanding his commitment, the obligation to perform certain types of activities, the demand to play the prescribed roles. This phenomenon, known technically as role pluralism, is

essential to an adequate understanding of the role of members of the Armed Forces in a given society.

The great sociologist Talcott Parson imputed four primary functions to all social systems namely adaptation, goal-attainment, integration, and pattern maintenance.

In this manner Indonesian society, not unlike every other societal system, is analytically divisible into four primary sub-systems, each associated with one of the four afore-mentioned primary functions. The adaptive function is served by the sub-system known as the economy, rooted in the exploitation of physical resources through the technological and economic mechanisms of production; the goal attainment function is served by the sub-system known as the polity, rooted in the control of actions in a territorial area through the organized use of force in the military and police functions; the integrative function is served by the sub-system known as the societal community, rooted in the commitment of the members of society to perform as expected and in this way to contribute adequately to societal functioning; and the pattern-maintenance function is served by the sub-system known as the socialization system, rooted in processes of the learning of values, norms and modes of communication.

The present brief presentation cannot discuss all of the four sub-systems and to specify the role of the Armed Forces in each of them, since the Armed Forces do play a variety of roles in each of them. Only one of these four societal sub-systems namely the integrative sub-system, will be subjected to discussion.

The population residing in those parts of the Indonesian archipelago which comprise the territory of the relatively young Republic of Indonesia do not constitute only one race but a number of races, the Malay race being the dominant race, its number primarily residing on the islands of Sumat̃ra, Java, Kalimantan (Borneo), and Sulawesi (Celebes). Members of the Malay race have physical features which distinguish them from members of the other races. Another part of the population, primarily residing on the island of Irian Jaya, are of the Papuan race. In addition to the indigenous races, there are also members of a number of races which are not indigenous to the archipelago, such as members of the Mongoloid, Semitic and European races.

It is not necessary to present a detailed social classification of the population in Indonesia, especially since through the ages much interbreeding among the various races has taken place together with complex interaction between heredity and environment, resulting in a wide range of human variability.

Nevertheless, certain physical features are socially linked to specific socially defined races, causing the distinction between "we" and "they" to be made in too many social interaction situations. The problem becomes even more complex when members of certain socially defined races are associated with races outside the territory of the Indonesian Republic and sentiments of solidarity between members of the same race, one part in Indonesia and another part outside Indonesia are believed to exist. The Malays of Sumatra and the Malays of Malaysia, for example, are regarded and to a certain extent regard themselves as members of the same race, as are the Papuans in West Irian and the Papuans in Papua-New Guinea. The Malays of North Sulawesi and the Malays of the Philippines are regarded as members of the same race, as are the Dayaks in Indonesian Kalimantan and the Dayaks in the Malaysian part of Kalimantan and Brunei. The Chinese in Indonesia and the Chinese elsewhere, particularly in mainland China, are regarded as members of the same race, as are the Arabs in Indonesia and the Arabs in the Middle East.

This racial situation has led to the problem of national integration, the problem of regulating the loyalties of all these racially different members of Indonesian society in such a way that each of them gives high priority to loyalty to the Indonesian societal community, a readiness to respond to properly justified appeals to the collective needs of the nation. The societal community, in this case usually referred to as the Indonesian nation is expected to be the focus of solidarity or mutual loyalty of its members and therefore becomes the consensual base underlying its political integration.

There is, of course, the likelihood of the continuation of loyalty to societal communities outside Indonesian society, loyalty rooted in history and deeply seated cultural traditions, or and this is also possible, rooted in newly acquired political ideas. Such loyalties to outside societal communities may become disruptive of the Indonesian societal community, and a threat to the unity and indivisibility of the nation.

Within Indonesian society, the Armed Forces have acquired a strong sense of national consciousness. Those officers and soldiers who have taken part in the National Revolution and made collective and individual sacrifices to defend the newly acquired freedom of the nation, have developed, to use Ernest Renan's words, "the consent, the clearly expressed desire to continue life in common", in spite of possibly significant individual differences. They have struggled and fought to unify and free the nation and certainly do not wish to see the nation getting disrupted.

Racial differences, however, are not the only possible cause of disruption of the integrity of the Indonesian societal community.

The population of the Indonesian archipelago are also divided in terms of differences in cultural traditions. The indigenous population consist of multivarious territorially based ethnic societal communities, such as the Acehese in the most Northern part of Sumatra, the Minangkabau in the Western part of Central Sumatra, the Sundanese in West Java, the Javanese in Central and East Java, the Bugis and Máccassarese in South Sulawesi, the Moluccans in the Moluccás, and so on, each having acquired their own much cherished cultural tradition from their respective ancestors. Each such territorially based ethnic societal community, therefore, has its own language, beliefs, values and norms, body of knowledge, symbols of expression, and other cultural elements, necessarily affecting the thoughts and actions of their individual members. There is much variation with respect to the complexity, or state of development, of these many cultural traditions, the Javanese civilization being generally acknowledged as the most complex, most highly developed cultural tradition.

These deeply rooted cultural differences can also become the source of misunderstanding, distrust, prejudice, discrimination, and conflict in social interaction situations among individuals from different cultural backgrounds, particularly when individuals of one cultural tradition feel threatened by individuals of another cultural tradition. The participating individuals necessarily face the immediate problem of competing loyalties in case of conflicts, loyalty to the ethnic societal community of origin or loyalty to the much larger Indonesian societal community, a retreat to the much more restricted home territory, or cultural tradition of their own ancestors, or identification with the more enormous Indonesian nation.

The population of the Indonesian archipelago do not believe in one common religion. A large majority of the population are believers of the Islamic faith, although many of them at the same time continue to believe, more or less, in their respective inherited indigenous ethnic religious tradition. In Bali most of the population are believers of Hinduism. There are also believers of Buddhism. Then, there are the Christian Protestants, divided into a number of regional churches as well as a great number of denominations and sects. And, there are the more religiously unified Roman Catholics, led by a Cardinal, a number of Archbishops. Bishops, priests and sisters associated with several supra-national religious orders. Many of the non-Islamic believers also continue to believe in their respective inherited indigenous ethnic religious traditions.

There is much religious tolerance within the Indonesian societal community, but the presence of individuals and groups of individuals who believe that it is their sacred religious duty to convert others to their religious faith - with per-

suasion if possible but with some coercion if necessary - cannot be denied. Again, the existence of such religious fanatics, of whatever religious faith, constitutes a threat to the harmonious social relations among individuals of different religious persuasions within the Indonesia societal community.

Other social cleavages which can develop into socially disruptive activities, destroying what has been achieved with many difficulties and sacrifices, are the increasing disparity between urban life and rural life and the resulting growth of the phenomenon of urbanization, causing much frustration among most of the people involved; the formation of more distinct social classes and the development of a larger social distance between the lower classes and upper classes, accompanied by the threat of the formation of class consciousness among the lower classes leading to class conflict in whatever forms; and the further development of distinctly different professions, each eager to exert itself and to have the best access to the available scarce resources. These will not be discussed because of the lack of time.

The problem of national integration, the integration of the complex network of interpenetrating collectivities and collective loyalties, demands serious attention and efforts to create, to promote, to maintain, and develop nationwide solidarity relations in accordance with the integrative needs of the Indonesian societal system, and to check or reverse disruptive tendencies to engage in activities which are contrary to common national interests.

There is, then, a need, practically a demand for the formulation of common value commitments which transcends partisan differences. The Armed Forces respond to this demand by the re-assertion of the common values which the founding fathers of the Indonesian Republic had identified as the Indonesian national values, the Pancasila. The five national principles were selected and formulated in such a way that it minimized the self-righteous implication that only one constituting social collectivity, such as the majority of the members of the Indonesian societal system are true to these values. The first principle, for example, states the believe in one God without specifying in accordance with what religious conception. This is a strong neutral idea which can be explained in particularized terms in conformity with the religious thinking of any of the six recognized major religions in Indonesia. The belief in the one God is one of the principle unifying factors of the very heterogeneous members of Indonesian society.

The Army reaffirmed its full commitment to the Pancasila by incorporating it in its Army Doctrine of Struggle, "Tri Ubaya Cakti", in 1966. Eight years later, its main ideas became the doctrine of national defence and doctrine of the Struggle of the Armed Forces of the Republic of Indonesia as a

whole, known as "Catur Darma Eka Karma". The Armed Forces reassumed their responsibility to take active part not only in the traditional task of defending the Indonesian nation and state against foreign threats but also to participate actively in the maintenance of national stability to facilitate development efforts in all recognized sectors of the social life of the Indonesian population.

It has become one of the principle tasks of the Armed Forces to promote and maintain national integration by amongst others, dissociating the national value consensus from more particularized ideological differences such as Islamic, socialistic and nationalistic ideologies which are allowed to continue to exist, and even develop further, as long as the value consensus in the form of Pancasila is not violated.

The Constitution of the Republic of Indonesia, adopted in 1945, and the prevailing laws of the state as the nation's normative order are supported most vigorously by the Armed Forces. This normative order is held to constitute the source of rights and obligations of all citizens of the republic and members of the developing Indonesian society.

The Armed Forces are well represented in Parliament, where new laws are being formulated, and in the People's Consultative Assembly, where the principle guidelines of the development of the state are determined, guidelines which bind the Government and the entire citizenry.

The enforcement of the law is also controlled by the Armed Forces, by academically trained members of the legal profession to be sure. The Chief Justice and several members of the Supreme Court, the Minister of Justice and the Secretary General of his Ministry, as well as the Attorney General are military officers. It has already been noted that the Police is a component of the Armed Forces.

The Armed Forces necessarily expand their activities beyond the areas of activities which are ordinarily associated with the military. The Armed Forces are currently participating in practically all fields of endeavour. It should be emphasized, however, that objective scientific diagnosis of empirical situations, requiring academic or technological expertise, are usually left to the civilian experts, the so-called technocrats, in so far as the required expert knowledge is not mastered by the relevant members of the Armed Forces.

In a brief presentation such as this it has been possible to analyze only a few aspects of the very complex sociological phenomenon presented by the role of the Armed Forces in Indonesian society. Both the Armed Forces and

Indonesian society are actually much more complex if each of these is examined more closely and more systematically, an undertaking which is still in the embryonic phase in spite of the already extensive literature devoted to these two phenomena and their interrelationship.

But perhaps this brief presentation can serve to indicate a direction in which the utilization of conceptual tools of sociology makes it possible to get oriented to some of the basic aspects of the existing social world, a social world which necessarily affects the personal as well as social life of the relevant individuals.

The foregoing sketchy and certainly inadequate reconstruction of the relevant social realities does, so it is hoped, indicate the fallacy of certain misconceptions prevalent in much current popular as well as academic thinking, foreign as well as indigenous with respect to the role of the Armed Forces in Indonesian society.

In spite of the seemingly omnipresence of members of the Armed Forces, frequently in civilian dress to be sure, Indonesian society is not at all a military state where the military interests reign supreme, or a society where the Armed Forces constitute a self-contained entity with radically different values from civilian values. The Armed Forces strive for the same social values which the civilian founders of the Indonesian Republic have identified as the common values of the Indonesian nation, including democracy "as guided by wisdom in consultation and representation", and which are also, in fact, the dominant common values of the civilian members of contemporary Indonesian society. The Indonesian state is intended to be a state regulated by laws, not by any power holding social collectivity. The Armed Forces strives vigorously to transform the state in conformity with the idea of a legal state, although the occurrence of contrary activities undertaken by individual members of the Armed Forces cannot be denied. Among military officers who are academically trained in the field of law, consciousness with respect to the primacy of the law seems to be much stronger than among their civilian colleagues.

In conformity with the idea of the legal state, in spite of the presence of members of the Armed Forces in the bureaucracy of the state, no institutionalization of the means of violence, ordinarily associated with the military, into the governmental apparatus has occurred. The utilization of coercion rather than persuasion in affairs of government is in reality rather rare. The judiciary arm of the Armed Forces serves as a watchdog, taking effective action when cases of the illegitimate use of violence by members of the Armed Forces are known.

The issue of the existence of conflict between the military and the believers of Islam, raised by a number of foreign authors but also regarded as a real issue by certain sectors of Indonesian society itself, is another example of a serious erroneous interpretation of social reality. To a certain extent it is also a reflection of ignorance of the relevant facts rather than a reflection of systematic knowledge.

Any discussion of the relationship between the military and Islam in Indonesia has to be based on the recognition that most of the Armed Forces including the President of the Republic, are Muslims, believers of the Islamic faith, and that quite a number of officers and soldiers are indeed devout or practicing Muslims. The problem is, therefore, not the fallacious problem of conflict between the military and Islam, but rather the problem of the existence of fanatical, socially destructive elements among the Muslims.

Although apparently the phenomenon is a common one with respect to each major religion, including Protestantism and Roman Catholicism, the existence of these anti-social tendencies, the tendency to act destructively towards believers of other religious faith and in some cases even towards fellow Muslims who adhere to other interpretations of the religious precepts, cannot be allowed in a religiously pluralistic society. In situations where these socially destructive tendencies occur, the Armed Forces are compelled to act, sometimes to use coercion and even means of physical violence, to restrain those who, driven by excessive religious fervor, intend to hurt other members of their own common pluralistic society, or to retaliate against those who have already done so. This obviously leads to the conclusion that this type of action cannot be regarded as the manifestation of an on-going conflict between the military and Islam.

True social science, and not just the presentation of conspicuous facts selected, interpreted and linked to each other without the utilization of systematic theoretical knowledge, would at least bring the most significant major elements of the relevant social realities under the purview of the analyst, sometimes producing reconstructions of realities which are against the commonly accepted ideas held to be true descriptions of reality.

It is hoped that the presently concluded presentation succeeded to be infused by true social science rather than by ideologically selected and distorted versions of the realities of the role of the Armed Forces in Indonesian society.*

*For further reading see List of Literature on page 121.

The Role of International Business in the Theory and Practice of International Trade*

J. PANGLAYKIM

INTRODUCTION

The report of the Academy of International Business entitled "International Business Curricula: A Global Survey" states that international business courses have been conducted in at least 262 universities in the United States and 108 universities elsewhere. Some 9,318 students follow such a course as major at the undergraduate level, 3,517 for the Master of Business Administration and 420 for the Ph. D. degree.¹

The facts and figures in the above survey demonstrate that the courses and majors in international business are a reality in formal studies in universities throughout the world. This striking development reflects the increasingly complex nature of international business. It is an arena where many factors play a role whether in harmony or conflict. In principle, the realities of politics, economics, diplomacy, international relations and entrepreneurial strategies are reflected in the field of international business.

Even before international business was studied formally in universities, it was already a reality in the international economy. The courses considered to be somewhat similar to international business at that time were international economics and international trade. The classical theory of comparative advantage was the key element in international economics. One country had a comparative advantage over another in the production of a good if it could

*Inaugural speech at the confirmation as professor of Faculty of Economics, University of Airlangga, Surabaya, September 26, 1981. The author wishes to thank Dr. Kenneth Thomas and Mary Elka Pangestu for their assistance in editing this paper.

¹Robert Grosse, Gerald W. Perritt (eds.) *International Business Curricula: A Global Survey*, Academy of International Business, 1980

produce it at a lower cost and more efficiently.¹ It is argued that a country will have a higher real income and be far more efficient in the use of its resources if it specializes in the production of those commodities in which it has a comparative advantage (in terms of costs and efficiency) and imports those in which it does not have such an advantage.

The classical theory is based on the following assumptions:²

1. All productive resources are fixed in quantity and constant in quality across nations. They are fully employed and there are no movements (or mobility) of productive factors between countries.
2. The technology of production is fixed (classical model) or similar and freely available (factor endowment model) for all nations. The spread of such technology works to the benefit of every nation. Consumer tastes are also fixed and independent of the influence of producers: international 'consumer sovereignty' prevails.
3. Within nations, factors of production are perfectly mobile between different production activities and the economy as a whole is characterized by the existence of 'perfect competition'. There are no risks and uncertainties.
4. The national government plays no role in international economic relations, so that trade is strictly carried out among many atomistic and anonymous producers seeking to minimize costs and maximize profits. International prices are therefore set by the forces of supply and demand.
5. Trade is balanced for each country at any moment of time and all economies are readily able to adjust to changes in international prices with a minimum of dislocation.
6. The gains from trade that accrue to any country benefit the nationals of that country.

From time to time economists have modified the classical theory. For example, the Heckscher-Ohlin theory stipulates that the production functions of internationally traded commodities are identical; Gruber, Mehta, and Vernor³ argue that there are different levels of technology, indicating the existence of a technological gap. They believe that technology can change a country's output and production function. According to this view, the technological gap reflects differences in expenditures on research and development (R and D). The United States and Japan are countries which set aside considerable funds for such purposes.

¹Michael P. Todaro, *Economics for a Developing World*, Longman, London, 1977, p. 411.

²*Op. cit.*, pp. 307-308.

³William Gruber, Dileep Mehta, Raymond Vernon, "The R and D Factor in International Trade and Investment in the United States Industries", *Journal of Political Economy*, Vol. 75, February 1967.

These views on international economic theory are proposed as an introduction to the main focus of this paper, namely to consider the concepts of strategy, structure, performance, and environment as important factors in the study of international business. There are a number of theories in international trade including:¹

1. The doctrine of comparative advantage argues that countries are better off in terms of real income and the most efficient utilization of resources if they specialize in the production and export those products for which they hold a comparative advantage in terms of cost, and import those commodities in which they are at a comparative disadvantage.
2. Trade between countries under comparative advantage takes place because of differences in production costs, which in turn are a result of differences in soil, climate, and endowment of resources.
3. Transportation costs, exchange rates, and factor proportions, as well as production costs, must be considered in determining which commodities will enter into international trade.
4. The Leontief Paradox² has raised some doubt concerning the universal validity of the Heckscher-Ohlin factor-proportions theory because trade patterns differed substantially from those that would be expected under the Heckscher-Ohlin theory.
5. Keesing³ stresses the point that the quality of labor measured by skill levels and educational categories is the critical factor in determining exports for any country.
6. By changing production functions for identical commodities among the countries of the world, Gruber, Mehta, and Vernon⁴ are able to introduce one additional variable that helps to explain patterns of trade, namely technology.⁵
7. Linder⁶ also departs from the factor-proportions theory by stating that per capita income and demand is the most important factor in explaining trade flows of manufactured goods.
8. The product-life cycle theory⁷ attempts to explain world trade on the basis of stages in a product's life. Stage one involves the introduction of and export of a new product in response to a change in demand; stage two occurs when international production begins to replace exports as transportation and tariff make it more attractive to produce abroad; stage three takes place when foreign firms become competitive in third markets which in turn leads to a further decline in home-country exports; finally, stage four begins when foreign firms invade the home market..."

¹John D. Daniels, Ernest W. Ogram Jr., Lee H. Radebaugh, *International Business, Environments and Operations*, Addison Wesley Publishing Co., Mass., 1978, pp. 29-30. (Here we are not concerned with an extensive analysis of the international economy).

²Wassily Leontief, "Domestic Production in Foreign Trade: The American Capital Position Re-examined", *Economia International*, February 1954, cited in John D. Daniels, *op. cit.*, p. 31.

³Donald Keesing, "Labour Skills and Comparative Advantages", *American Economic Review*, Vol. 56, May 1956.

⁴A technological relationship between the quantity of input required to produce a given output.

⁵Humphrey also notes the importance of technology, but he emphasises the difference between American technology and that in other countries. He does not include Japan as a country with high level technology. See Thomas M. Humphrey, "Changing View of Comparative Advantage", in Harold W. Berkman, Ivan R. Vernon. *Contemporary Perspectives in International Business*, Rand—McNally Publishing Co., 1979.

⁶Staffen Linder, *An Essay on Trade and Transformation*, Wiley, N.Y., 1961.

⁷Louis T. Wells Jr., *Test of a Product Cycle Model of International Trade*, Harvard University Press, Cambridge Mass., 1966.

Theorists concentrating on economic development have added to the above list. For example, according to Smith and Toye¹ there are three scenarios on the role of international trade in a country's economic development:

- a. The scenario of *mutually beneficial trade*. This is the oldest and now classical theory of trade. According to this scenario, the welfare of countries engaged in international trade will increase although that trade is conducted between a developed and developing country;
- b. The scenario of *structurally biased gains from trade*. This scenario is based on an analysis of the impact of trade between countries with different economic structures. According to this view trade between rich countries (industrial countries with higher technology) and those which are still developing will be more beneficial to the rich;
- c. The scenario of *trade-induced global polarity* is more recent and is within the Marxist stream of thought. This scenario is based on the belief that trade and economic specialization will always benefit industrial countries and will prevent or restrict the development of the poor countries.

Singer and Prebisch², two other economists interested in economic development, argue that there is an asymmetrical relationship between the theory of structural differences and comparative advantage. Comparative trade theorists with varying degrees of emphasis stress the need for international trade because of differences in technology and management between countries. Other writers, focusing on national economic development, conclude that on the basis of the structural approach mentioned above, the development of international trade will tend to create two asymmetrical groups. As a result, the profits of industrial and developed countries will be greater than those of the developing countries. We can also note that trade between developed countries also tends to be asymmetrical for example between Japan and the United States and Western Europe.

In other words, developments in the world economy such as the increasing mobility of capital, the increasing rate of technological transfer, the lowering of the differences in economic capacity between the United States and Japan, have persuaded economists to change their perceptions with regard to the structure of comparative advantage which had originally been regarded as stable and continuous. Furthermore, rapid shifts in international business rela-

¹Sheila Smith and John Toye, "Introduction: Three Stories about Trade and Poor Countries", *The Journal of Development Studies*, April 1979, special issue on Trade and Poor Economies.

²H.W. Singer, "The Distribution of Gains between Investing and Borrowing Countries", *American Economic Review*, May 1950; H.W. Singer, "The Distribution of Gains from Trade and Investment Revisited", *Journal of Development Studies*, Vol. 11, 1964, and R. Prebisch, "Commercial Policy in the Underdeveloped Countries", *American Economic Review*, May 1959.

tions have occasioned problems leading to force change in the industrial structure of countries, and policy adjustments in general, which have been extremely costly. These developments have been accompanied by a tendency for increased protectionism. According to Humphrey¹ such protection and claims that the costs of adjustment are too high have led to the conclusion that the theory of comparative advantage is incomplete.

OBSERVATIONS OF THE ROLE OF INTERNATIONAL BUSINESS

An analysis of the concepts of international economics leads to the conclusion that differences in factors of production have resulted in interdependent developments in international business. Since World War II and the beginning of 1970 international business has been based on:

- a. free trade;
- b. fixed exchange rates; and
- c. the military and economic power of the United States.

During that period direct investment and international trade increased considerably. A reality much in evidence in the development of modern international business was that investment and trade were complementary. The theory of comparative advantage, which had already undergone a number of modifications as a result of trends in international business, has had to be adjusted to incorporate an analysis of the various sectors in international business. Some writers have tried to develop international economic theory by emphasizing that the comparative advantage between countries must be adjusted in the arena of international business. So far no theory has succeeded in bringing together the theory of international economics and the theory of international business. An integrative theory in this direction is still being researched.

The literature on international business usually analyses various aspects of the actors in the international business arena. In contrast to the literature dealing with concepts in international economics, the multinational corporation (MNC) or the transnational corporation (TNC) has become the focus of study. These corporations are regarded as the mechanism which creates relationships, tensions, and growth in international business. One noted economist, Fayerweather² says that the MNCs should be regarded as the vehicle for the

¹Humphrey, *op. cit.*

²John Fayerweather, *International Business Management*, McGraw-Hill Book Co., 1969.

movement of economic resources between nations. He argues that the movement and mobility of those resources are due to:

- a. differences in the economic endowment of countries (natural resources, technology, management, and so on);
- b. the role of government in facilitating the movement and mobility of such resources;
- c. the existence of companies which operate on a multinational basis.

The combination of these three factors have played an important part in determining the nature of the MNC and the mobility of economic resources. The mobility of such factors of production as capital and technology developed at a rapid rate because the business climate after World War II was based on the free market. Whereas before the war portfolio investment predominated, after the war the situation was more conducive to direct investment. At first, MNCs from the United States dominated in direct investment, later firms from Western Europe and Japan emerged followed eventually by MNCs from the newly industrializing countries such as Hong Kong, Taiwan, and South Korea.

Direct investment has been the key to international business since World War II, a phenomenon which has changed the pattern of trade between countries. As mentioned above, most of the direct investment was carried out by MNCs with head offices in the industrialized countries. Many have already analysed the problems associated with the growth of these companies. Three models have emerged as result of these analyses:¹

a. The Sovereignty-at-Bay Model

This model is based on the conviction that the MNCs will eventually operate as the mechanism which will integrate international business and the world economy on the basis of liberal principles.

b. The Dependency Model

This model assumes that there is a hierarchical and exploitative international economic structure which is profitable for the centres of industrial and financial power.

¹Robert Gilpin, "Three Models of the Future", in *US Power and the Multinational Corporations: The Political Economy of Foreign Direct Investment*, Basic Books Inc., 1975.

c. The Mercantilist Model

This model urges that priority be given to the national interest. In our opinion, it is the "mercantilist" model, which emphasises the national interest, which will have the most adherents. Our world is greatly influenced by Western and Japanese multinationals. For this reason alone it is in the national interest to expand our studies and knowledge of the MNCs in particular and international business in general. Such studies are especially important for those involved in international business as well as for those entrusted with decision making and the formulation of national policy.¹

So far, we have discussed the classical concept of comparative advantage and the efforts made by various writers to modify the theory to take into account the complex developments in the world of business. We know that the classical theory and its modifications were considered ill-adapted to international business in practice and that attempts were being made to integrate the theory of comparative advantage with the concepts and theories emerging in the science of international business. But such an integrative theory still eludes us. What we do have are various analyses and concepts about multinationals which consider them as both actors in international business and as a mechanism facilitating the operations of that business.²

AN INTERNATIONAL BUSINESS PERSPECTIVE: A SYNTHESIS

In our review of the literature on international business, we will look at the issues from the standpoint of business operations. A number of concepts have been developed including those concerned with *strategy*, *structure*, *environment*, and *performance*. Chandler is a prominent analyst of developments in the business world who concentrates his research on enterprises in the process of establishing themselves in business. He believes that the interaction between strategy, structure, and environment is the dynamic factor in understanding international business and that in the mutually re-inforcing interplay among those factors, structure follows strategy or that new structures emerge from

¹The literature on the multinationals is now extensive, a sample of which is listed in the *Bibliography on Transnational Corporations*, United Nations, N.Y., 1979, a list which includes some 4,200 books, articles and documents.

²See for example the collection of articles in Neil Hood and Stephen Young, *The Economics of Multinational Enterprise*, Longman, 1979 and the bibliography mentioned in the previous footnote.

changes in strategy. Miles and Snow¹ on the other hand argue that the interaction between strategy and structure in the development of the modern enterprise is more complex than the studies of Chandler suggest. Both authors feel that the research of Drucker, Perrow, and Chandler tend to conclude that structure follows strategy and that both factors must be arranged in such a way that they are mutually re-inforcing. Others, including Fouraker, Stopford, March, Simon, and Cyert² support the view that structure can put pressure on strategy to the extent that it becomes a factor impeding change. This means that to analyse the interaction between structure and strategy, we must also consider the alignment between these two elements in the process of change.

Chandler's findings are used by many writers in the field of international business especially with regard to multinationals in the United Kingdom, West Germany, and the United States. Innovative entrepreneurs observe and evaluate the recent challenges and responses as a result of the changing environment. In facing these challenges, they must display courage and far-sighted vision in order to create new strategies to translate their calculations into reality in the business world. This requires that the new formulations on strategy be accompanied by the creation of new structures which can facilitate expansion to the extent that it is truly realized and becomes fully operational.³ Furthermore, Miles and Snow argue that in order to study strategy, structure, process of change, we must also consider three fundamental problems:

- a. organization endeavour to create their own environment;
- b. the choice of management strategy will determine the organizational structure and process;

¹Raymond E. Miles, Charles C. Snow, *Organizational Strategy, Structure and Process*, McGraw-Hill, p. 8.

²Richard Cyert and James G. March, *A Behavioural Theory of the Firm*, Prentice-Hall, Englewood Cliffs, N.J., 1963, L.E. Fouraker and J.M. Stopford, "Organization Structure and the Multinational Strategy", *Administrative Science Quarterly*, Vol. 13, June 1968, pp. 47-64; Herbert Simon, *Organizations*, Wiley, N.Y., 1958.

³Alfred D. Chandler, Jr., *Strategy and Structure*, Doubleday, Garden City, N.Y., 1962. See also Derek F. Channon, *The Strategy and Structure of British Enterprise*, Macmillan, 1973, a study inspired by Chandler and the result of the project headed by Bruce R. Scott of the Harvard School of Business Administration; see also Garath R. Dyas and Heinz I. Thanheiser, *The Emerging European Enterprise: Strategy and Structure in French and German Industry*, Westview Press, 1976, a study based on the revision of two doctoral theses inspired by a concept developed by Chandler. Other references include Derek F. Channon, *British Banking Strategy and the International Challenge*, Macmillan, 1977 (another work derived from a Chandler concept) and Kiichiro Nakagawa, *Strategy and Structure of Big Business*, University of Tokyo Press, n.d., a report of the International Conference on Business History, 1974. The papers of the conference were directed towards an analysis of such topics as the strategy and structure of Japanese business, international comparisons of business strategies, and strategies and structures in Western countries.

c. structure and process are factors which may impede the formulation of strategy.

According to Yoshino, who is involved in a Harvard project, an in-depth analysis of Japanese enterprises has yet to be undertaken on the basis of concepts such those developed by Chandler.¹ He believes that Japanese business and industries in the process of development have evolved a series of changes in strategies and structures on the basis of consensus before World War II (before 1945 that is), Japan was in the process of industrialization and concentrated on internal requirements. After the war, economic rehabilitation took first priority but subsequently Japanese strategy took on an international flavour especially in the 1970s. This strategy is known as a strategy for an export-led-economy.

Analysis of the strategy and structure of Japanese business has been pioneered by Nakagawa² Morikawa, Yasuoka, and Yui. These authors have studied the development of business from a historical perspective and enterprise as economic institutions. Other writers see the issue from the standpoint of business only without considering such other sectors as industry and banking. This latter group adopt an approach to organizations and management similar to that of Miles, Schendel, Hofer, and others.³

The approach followed in this paper does not differ greatly from that of such writers as Chandler, Channon, Dyas, and Nakagawa who analyse the concepts of strategy, structure, environment, and performance as sectoral processes. Our approach emphasizes the development of MNCs as actors in the international business arena. As actors who create a mechanism in international business, the MNCs play a part in determining strategy, structure, environment, and performance. There are, of course, MNCs who do not pay as much attention to performance as might be expected. The focus here is also on MNCs from a number of countries but special attention is directed towards the development and role of Japanese MNCs. In analysing the MNCs, we believe that countries which lack natural resources and raw materials in many instances adopt an export or trade strategy, so that in the development of na-

¹Yoshino, M.Y., *Japan's Multinational Enterprise*, Harvard University Press, 1976.

²Nakagawa, *op. cit.*

³Raymond E. Miles and Charles C. Snow, *Organizational Strategy, Structure and Process*, McGraw-Hill, 1978; Dan E. Schendel and Charles W. Hofer, (eds.), *Strategy Management: A New View of Business Policy and Planning*, Little Brown and Co., 1979 and H. Igor Ansoff (ed.), *Business Strategy*, Penguin, 1969.

tional economies they can be classified as export-led and trade-strategy oriented economies. On the other hand, countries with adequate resources and raw materials often base their development on domestic demand (domestic-demand-led-economies) such as the United States. In our opinion, there exists between these two types of economy a difference in national strategy, organizational structure, and environment (opportunities, facilities, and so on). The difference between them will also play a part in determining their position in the international business arena.

Another tendency which we can observe for countries that are rich in resources is that the role of the government or bureaucracy in the economy is less than in countries whose growth is based on trade or exports. In the latter countries, appropriate government policies are an important factor in national development. It is important at this point to emphasize that within this latter group there are differences between trading economies and export economies. Export economies emphasize sales on the international market and are not so concerned with such other issues as investment and changes in the pattern of trade. The strategy of trading economies by contrast takes into account such aspects as the close relationship between investment and aid, with the objective of changing both the pattern of foreign trade and domestic production. At the present time, Japan's export strategy is beginning to change towards a trading strategy¹, whereas both South Korea and Taiwan, for example, are still export oriented.

Other studies, on the MNCs illustrate that in almost all countries they tend towards the creation of oligopolistic structures. This means that various business and industrial activities are dominated by one or more small groups which are in an oligopolistic position. In the words of Chandler:

"... modern business enterprises took the place of market mechanism in coordinating the activities of the economy and allocating resources. In many sectors of the economy the visible hand of management replaced what Adam Smith referred to as the invisible hand of market forces".²

Chandler proposes a concept of "managerial hierarchy"³ and argues that the MNCs are taking over the role of the market mechanism as allocator of resources.

¹Japanese companies have already begun to invest in factories located in industrialized countries such as the United States and the United Kingdom, demonstrating the fact that modern business is taking on the function of the market in co-ordinating economic activity and allocating resources. In some sectors of the economy, the 'hand' of management has clearly replaced what Adam Smith referred to as the 'invisible hand' of market forces.

²Alfred D. Chandler Jr., *The Visible Hand: The Managerial Revolution in American Business*, Harvard University Press, 1977.

³Alfred D. Chandler Jr., and Herman Daems, *Managerial Hierarchies: Comparative Perspective on the Rise of the Modern Industrial Enterprise*, Harvard University Press, 1980.

In many sectors of the economy, the visible hand of management has already replaced the invisible hand of market forces. Although the market still creates and generates the demand for goods and services, the modern MNC¹ has already taken over the coordinating function in directing the flow of goods in both the processes of production and distribution. Chandler sees the MNCs as the powerful institutions in the economy and their managers as decision

¹Each unit in modern business has a hierarchical administration so that in theory they operate autonomously. The traditional enterprise consisted of only one unit headed by the owner and operating in a simple fashion. At that time, prices in the market performed the role of coordinator. In economic theory, it is assumed that production and distribution are in the hands of traditional enterprises still controlled by the invisible hand or the market mechanism. Whereas historians tended to study and write the histories of prominent businessmen as individuals, today there is more of an emphasis on the development of institutions as a mechanism which can take over the co-ordinating functions of the market. Chandler has proposed eight of the propositions on this tendency, namely:

- (i) "... modern multiunit business enterprise replaced small traditional enterprise when administrative coordination permitted greater productivity, lower costs, and higher profits than coordination by market mechanisms". (This can occur by grouping together activities already being carried out by a number of business units which also deal among themselves. Japanese conglomerates are a good example of this.)
- (ii) "... the advantages of internalizing the activities of many business units within a single enterprise could not be realized until a managerial hierarchy had been created". (For this reason, the management hierarchy is by nature different from the modern enterprise.)
- (iii) "... modern business enterprise appeared for the first time in history when the volume of economic activities reached a level that made administrative coordination more efficient and more profitable than market coordination ... Such an increase in volume of activity came with new technology and expanding market ..."
- (iv) "... once a managerial hierarchy had been formed and had successfully carried out its function of administrative coordination, the hierarchy itself became a source of permanence, power, and continued growth ..."
- (v) "... the careers of the salaried managers who directed these hierarchies became increasingly technical and professional ..." (In this new bureaucracy, managers were selected and promoted on the basis of their special skills, experience, and performance, rather than on the basis of family relationships as in the past.)
- (vi) "... as the multiunit business enterprise grew in size and diversity and as its managers became more professional, the management of the enterprise became separated from its ownership ..."
- (vii) "... in making administrative decisions, career managers preferred policies that favoured the long-term stability and growth of their enterprises to those that maximized current profits ..."
- (viii) "... as the large enterprises grew and dominated major sectors of the economy, they altered the basic structure of these sectors and of the economy as a whole ..."

According to Chandler these basic propositions fall into two parts. "The first three help to explain the initial appearance of modern business enterprise: why it began when it did, and the way it did. The remaining five concern its continuing growth: where, how and why an enterprise once started, continued to grow and to maintain its position of dominance." (see A.D. Chandler, Jr., *The Visible Hand: The Managerial Revolution in American Business*, Harvard University Press, 1977, pp. 6-11.).

makers who have power and influence in the decision making process in the national economy as a whole.

The above discussion gives material for an analysis of international business which over time has become more complex and has seen increasing tension among the MNCs which function as both actors and a substitute for the market mechanism. International business relations have been subjected to increasing conflict compared to earlier years. Surpluses and deficits in resources and raw materials are seen as important factors in international economics, affecting the role a state can play on the international stage. Resulting from developments in international business, including direct investment, MNCs have emerged which are seen to translate macro strengths and weaknesses into operational strengths. In this transformation, they are guided and directed by the close links between strategy, structure, environment, and performance. Structural development has already created a management hierarchy which has, as we have noted, seen the replacement of the invisible hand or market mechanism by the visible hand. At the same time, strategies decided at the macro level influence the structure at the operational level. In this process, the environment in which they act has some influence on the outcome.

Using the above analytical framework, we can study further the performance of Japanese and Western MNCs. The comparative advantages and disadvantages within the Japanese economy have assisted the country to move in the direction of a national consensus in the formulation of a strategy. The national strategy, namely the development of the economy to the status of a superpower based on an export economy (in accordance with the *Ichiban* spirit), has made it necessary for Japan to create a structure and environment which facilitates the transformation of that strategy into reality. To achieve this goal, the Japanese have set up combinations at the macro level by creating operational power structures such as the *Sogo Shosha*.

The *Sogo Shosha* are seen by Young as MNCs which base their activities on what is referred to as "unique—knowledge intensive service". In the world of trade they offer a service in the creation and supply of marketing channels in international business and make available a wide selection of products. The *Sogo Shosha* have already established themselves as multinationals characterized by multiproducts, multimarkets, multiservices, and multitraders and have acquired a strong position in production on a global scale, supplying goods, services, markets, finance, and so on.¹

¹Alexander K. Young, *The Sogo Shosha: Japan's Multinational Trading Companies*, Westview, 1979, p. 231.

Japanese MNCs are in the forefront of international business, a position not easily won. Their achievement was due to their adherence to the principle of the combination and mobilization of forces. Until the end of World War II, Japan was in a position of comparative disadvantage because it had little or no natural resources or raw materials. After the war, within a period of less than twenty years, the Japanese turned that disadvantage into a position of comparative advantage. The agents and mechanism used for that turn-around were the MNCs including such groups as Fuyo, Daiichi Kangyo, Mitsui, and Mitsubishi.¹

From the above analysis, it is clear that the literature on comparative advantage which emphasizes such factors as specialization, technology, differences in technology, level of per capita income and management neglects the development of institutions which bring together and mobilize the various resources available within each country. To complete the analysis of comparative advantage, we must consider the impact of those advantages at the macro level. Japan as we have seen succeeded in translating the combination of various factors at the macro level into a set of forces at the micro or operational level. In this way, Japan created productive and efficient economic institutions capable of realizing national objectives. National capacity was brought together and mobilized through MNCs or the Sogo Shosha as prominent and powerful productive economic units. The creation of Japan's comparative advantage has been the result. The superiority of Japan's MNCs has been the result of the combination of such factors as:

- a. the combination of a number of economic activities such as banking, production consultation, assurance, transportation, marketing, and mining within such groups as Fuyo, Daiichi Kangyo, Mitsui, and Mitsubishi;
- b. skilled management (including entrepreneurship), loyalty within the group, discipline, team spirit, and experience;
- c. access to financial and capital markets at both the national and international level;
- d. access to the national and international markets in technology (including research, development, and the purchase for renting of technology in the international market);
- e. the creation of an international network for production, marketing, and for marketing and commercial intelligence;

¹On 31 March, 1979, the assets of the Daiichi Kangyo group totalled US\$ 45 billion and profits after tax for the previous year were US\$ 122 million. The network of the group included 45 companies organized as the *Sankin Kai* with assets of US\$ 136 billion at the beginning of 1978. Sales of the group were some 15 percent of Japan's gross national product with branches in almost every type of industry in the country such as Kawasaki Steel, Kawasaki Heavy Industries, Kawasaki Kisen Kaisha and Hitachi. The output of the group is marketed by three of the ten largest enterprises in Japan, especially C. Itoh & Co.

- f. full support from the Japanese government and bureaucracy, especially from the Ministry of Trade and Industry (MITI), the Ministry of Finance, and the Central Bank;
- g. a sense of national mission.

The appropriate combination of these seven elements is organized in a complex fashion by a system of formal and informal management consistent with the Japanese culture. This structure represents a strong force in international business and has enabled Japanese MNCs to take over leadership from other MNCs. It should be emphasized that the combination of the seven factors listed above has given Japan a comparative advantage which is unique and which has not, so far, been achieved to the same extent by any other country. In fact, Japan has acted as a sufficient inspiration to South Korea and to date only South Korea has achieved reasonable success in creating an appropriate combination of factors along the Japanese lines. Other countries such as Singapore, Thailand, and Taiwan have begun to formulate their version of the Japanese model.

What we have said so far is not entirely new. What is new is our suggestion for an approach which emphasizes the combination and mobilization of the seven forces which have already proved a success in the arena of international business and the creation of effective agents of national development. If a country wishes to establish bilateral or business relations with Japan, it will be confronted by such a system. This is an aspect which deserves close attention. In the 1980s, we will see increasingly strong actors in the international business arena. Each country had already experienced the impact of MNCs beginning with those from Western countries followed by those from Japan and more recently the MNCs from South Korea. Such influences will be increasingly felt in the future.

Indonesia has a comparative advantage in natural resources, such as raw materials and oil, which offer a strong possibility, even an obligation, for us to become a country which is not only export oriented but also trade oriented. But it is evident that the combination of forces which we have at present does not as yet form a united, powerful, and productive economic unit which operates smoothly. Yet this element is of crucial importance in the development of the economy in general and business in particular and for our position in the world of international business. For Indonesia, the forces at the macro level must be realized at the micro or operational level. The appropriate combination of the seven factors will give us a strong and dynamic comparative advantage in international business. Without the creation of an appropriate combination of forces, our position will remain weak and we will become increasingly dependent.

THE CHALLENGE FACING INDONESIA

If our analysis is correct, the answer is in our own hands, because only we can overcome our problems in the future. The major challenge we face in the 1980s is to find a mechanism whereby we can create the appropriate combination of the seven factors we have discussed above. This assessment is based on the observation that comparative advantage based on the availability of productive factors is not important. On the other hand, the possession of skills, high levels of education, technology, and so on is also not enough, they must be organized, mobilized, and managed well. This means it is necessary to create economic institutions as part of a system whose separate elements must be seen as part of an indivisible whole.

At the macro level, the concept of comparative advantage in the Japanese context is part of an integrated system which combines and mobilizes all the factors available to them. They are aware that their lack of natural resources must be overcome by human resources in the form of increased levels of managerial ability, organization, and entrepreneurship. The creation of such a system is an important reason for Japan's dominant position in the international business world. Before Japan had created that system, the strategy adopted by Western MNCs was the most well-known. Western economies were "domestic-demand-led" and their MNCs entered international markets by combining and mobilizing the following four factors:

- a. management and organization;
- b. technology, including research and development;
- c. capital and access to capital markets;
- d. an international network which was still rather restricted.

The integrated system created by the Japanese in its modern enterprise environment (Sogo Shosha) has seen the emergence of important differences among the systems of the industrialized countries. This *integrated systems* gap will tend to widen because of the conflicting reactions among the countries concerned. As a result of Japanese domination in the international business arena, industrialized nations are becoming more protectionist. Such developments have led to international economic tensions which forces Japan to alter its industrial structure. Consensus in Japan is moving the country in the direction of a high technology structure producing high technology commodities in an effort to overcome protective barriers in world trade. This strategy is, in itself, making possible the new integrated system. Western countries have so far been unable to change the pattern of their industrial structure. The costs involved for the industrial sector are considered to be too costly and not yet possible so their reaction is not towards structural changes but more towards protectionism.

Science produces opinions, concepts, and analysis. The current state of knowledge in the field of international business is causing much dissatisfaction among analysts and theorists in the area and they are endeavouring to improve their understanding of the situation. In our observations of the field, we have focussed our attention on those actors called MNCs. Their mode of operation has encouraged studies which emphasize four concepts namely, strategy, structure, environment, and performance. Analysis based on these concepts leads us to conclude that previous attitudes should be accompanied by an approach based on a study of integrated systems. Japan itself developed such a system within the framework of action based on the four concepts listed. If we can agree that the gap between countries is a result of the creation of an integrated system, then each country which desires to occupy a meaningful position in international business must study carefully the nature of such a system so that it can formulate a concept of economic advantage unique to itself. The implications of accepting this concept are considerable because it involves the achievement of a national consensus. The execution of a strategy based on such a consensus will be difficult but very important for the development of a resolute and dynamic national economy. The study of this concept of an integrated system should not be confined to academics, it must be a national effort. This is the challenge facing us because the answer is in our own hands.

Transfer of Financial Resources to ASEAN and Latin America

Hadi SOESASTRO

INTRODUCTION

The ASEAN economies have performed remarkably well during the decade of the 1970s. In terms of real GDP growth for the period 1970-1979, Singapore ranked first with an average annual rate of about 8.4 percent, followed by Malaysia, Thailand and Indonesia with a growth rate of a little less than 8 percent, and the Philippines with 6.2 percent.¹ The prospects for the 1980s are generally believed to be equally encouraging. In some sense, however, there is cautious optimism with regard to the ability of the ASEAN countries to sustain the pace of their development, largely because of the uncertainties in the world economy.

Continued global recession or slow economic recovery in the major industrial countries severely affect the payment balances of the ASEAN economies. Larger inflows of external financial resources will have to be secured in order to maintain a reasonably high rate of economic growth. As shown in Table 1, current account balances of the individual ASEAN countries deteriorated rather significantly in 1981 and are likely to continue to be so in 1982. During the period 1978-1980, the combined current account deficits of the ASEAN countries fluctuated between US\$ 2 to 5 billion. In the period 1970-1977, the combined current account deficit was never larger than US\$ 4 billion. The combined deficit increased dramatically in 1981 to over US\$ 11 billion and is projected to reach over US\$ 12 billion in 1982.

*Paper presented at the Seminar on "The State of Southeast Asian and Latin American Relations", organized by Centro De Estudios Economicos Y Sociales Del Tercer Mundo, A.C., Mexico City, 19-24 April 1982.

¹See World Bank, *World Development Report 1981*, Annex.

Table 1

ASEAN: CURRENT ACCOUNT BALANCE^a (in billions of US dollar)

	1978	1979	1980	1981 (est.)	1982 (proj.)
Total ASEAN	- 4.7	- 2.7	- 4.2	- 11.5	- 12.3
Indonesia	- 1.4	1.0	2.4	- 1.5	- 2.5
Malaysia	0.2	1.4	- 0.5	- 2.0	- 2.5
Philippines	- 1.5	- 1.7	- 2.2	- 3.0	- 2.5
Singapore	- 0.8	- 1.2	- 1.6	- 2.0	- 2.3
Thailand	- 1.2	- 2.2	- 2.3	- 3.0	- 2.5

^aAfter official transfer

Source: IMF, *International Financial Statistics*, for 1978-1980 figures; *Asian Wall Street Journal*, September 30, 1981 for 1981 estimates and projections for 1982.

The problem for the ASEAN countries in this regard is not merely one of how to deal with the much larger magnitude of external capital requirements, but also of how to cope with the changing structure of external capital supplies. In essence, greater inflows of external financial resources over time are not necessarily worrisome for a growing economy. But economic growth in the ASEAN countries during the 1970s -- which promoted these countries into higher levels of development -- altered the structure of external capital supplies to these countries as well.

An examination of the global pattern of resources transfer to LDCs shows that there is a correlation between the structure of supply of external financial resources to and the level of development of debtor countries (See Table 2). It clearly can be indicated that a country has to rely more on capital from private sources, especially from the financial markets, when it moves up the ladder of development. The problem to these countries, thus, is that of adjusting to the shifts from a non-market mechanism to a market mechanism in the acquisition of external funds.

In 1979 only one-quarter of capital flows (commitments) to lower-income countries originated from private sources; the share increased dramatically to 50 percent for lower middle-income countries and further increased to about 80 percent for higher middle-income countries. Table 2 also shows that for all LDCs the share of private capital increased from about 45 percent in 1969 to about 67 percent in 1979, and that financial markets play an increasingly important role in the supply of capital to developing countries.

Table 2

THE STRUCTURE OF EXTERNAL CAPITAL SUPPLIES TO LDCS^a IN 1979
(in percent)

Level of Development	Official creditors			Private creditors		
	Total	Gov.	Int. Org.	Total	Suppliers	Fin. markets
Higher middle-income	21.2	10.4	10.7	78.8	6.0	72.8
Lower middle-income	50.0	26.1	23.9	50.0	8.6	41.4
Lower-income	87.5	39.0	48.5	12.5	3.7	8.8
All LDCs	32.9	16.2	16.7	67.1	6.4	60.7
(1969)	55.0	37.0	18.0	45.0	21.6	23.4

^aCommitment of debt-creating flows (excludes foreign direct investment and unguaranteed loans contracted by the private sector).

^bAccording to World Bank's classification for 1979.

Source: World Bank, *World Debt Tables*, various issues.

In the 1979 classification of the World Bank, both Malaysia and Singapore belong to higher middle-income countries, whereas Indonesia, the Philippines and Thailand belong to lower middle-income countries. The change in the structure of supply of external financial resources faced by the ASEAN countries in the period 1969-1979 was quite remarkable, especially for Indonesia, Thailand and the Philippines. As exhibited in Table 3, of the total flow of external financial resources to Indonesia and Thailand only 5 percent originated from private sources in 1969; this share increased to about 40 to 45 percent in 1979. In the case of the Philippines, the share of capital from private sources increased from about 18 percent in 1969 to 64 percent in 1979. The shares for Malaysia and Singapore remained quite stable, namely about 50 to 55 percent and about 30 to 35 percent, respectively. The decade of the 1980s may see a continued increase in the shares of private capital in the supply of external financial resources to the ASEAN countries.

This change in structure has a number of implications. The first, and most visible, implication is the greater debt service burden in view of the hardening terms of borrowing. Expressed in terms of their grant element, loan commitments by official creditors in 1979 carried a grant element of 37 percent compared to - 7.5 percent for loan commitments from private creditors. The terms of borrowing hardened during the 1970s and is likely to continue in the

years to come.¹ As suggested by the *Asian Wall Street Journal*, for the ASEAN countries which in general have become large off-shore borrowers, "the price of money has become a worse problem than the price of oil."² With the growing magnitude of external capital requirement and especially in view of the changing structure of its supply, issues of debt servicing capacity (DSC) have come to the fore in the ASEAN countries, particularly in the Philippines and Indonesia, and to a lesser extent in Malaysia and Singapore.

Table 3

THE STRUCTURE OF EXTERNAL CAPITAL SUPPLIES TO ASEAN COUNTRIES^a IN 1979
(in percentage)

	Official creditors			Private creditors		
	Total	Gov.	Int. Org.	Total	Suppliers	Fin. markets
Indonesia	60.9	33.3	27.6	39.1	5.2	33.9
(1969)	94.9	81.0	13.9	5.0	3.1	1.9
Malaysia	44.7	23.6	21.1	55.3	10.5	44.8
(1969)	51.6	11.4	40.2	48.4	3.0	45.4
Philippines	35.9	10.7	25.2	64.1	3.1	61.0
(1969)	81.7	24.4	57.3	18.3	2.9	15.4
Singapore	64.9	60.9	4.0	35.1	21.9	13.2
(1971)	67.6	20.2	47.4	32.4	10.6	21.8
Thailand	54.4	36.7	17.8	45.5	7.3	38.2
(1970)	84.7	11.7	73.0	5.4	0.2	5.2

^aCommitments.

Source: World Bank, *World Debt Tables*, various issues.

FINANCIAL RESOURCES TRANSFERS TO ASEAN AND LATIN AMERICA

The magnitude of external capital inflows into the ASEAN countries is relatively small compared to those into the seven major Latin American debtor countries (Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela).

¹The grant element of official loans was 44 percent in 1973 whereas that of private loans was 4.5 percent in 1973.

²The *Asian Wall Street Journal*, October 1, 1981.

The combined flows (commitments) into ASEAN is even smaller compared to those into Mexico (US\$ 12.7 billion) or Brazil (US\$ 11.2 billion) alone.¹ In 1979, the combined flows of external capital into ASEAN were US\$ 8.8 billion compared to about US\$ 35 billion into the seven major Latin American countries. If one were to include external financial resources contracted by the private sector in those countries, the relative difference in magnitude would be even greater in view of the more developed private sector in the Latin American countries.² Furthermore, inspite of the change in the structure of external supplies faced by the ASEAN countries, it has not equalled that of the Latin American countries, where the share of private capital was 93 percent in the case of Mexico in 1979, for example.

Nonetheless, given the magnitude and the structure of external capital supplies which the ASEAN countries will have to reckon with, transfer of resources to these countries for the purpose of economic development can no longer be treated as if such capital inflows were not subject to the payments of amortization and interest. In fact, the process of meeting the capital requirement is accompanied by return flows which grew under the impact of compound interest. Therefore, the need to "finance" debt service obligations in itself leads to additional borrowing requirements and thereby, steadily increased the level of debt outstanding. It is this prospect which created a lot of apprehensions and ambiguities on the part of many ASEAN countries.³

DSC issues of interest to the ASEAN countries center around the question of how far these countries can cope with the changing structure of external capital supplies which accompanies their graduation to a higher level of development. In short, the feasibility of the borrowing process which the ASEAN countries is engaged in is continuously being scrutinized. Theoretically, there are two sides to this problem. The one side poses the question of how to secure a certain amount of *net* inward transfers; here, DSC is the ability to smoothen the roll-over process. It is the process of "securing a net transfer by obtaining new loans in amounts in excess of debt servicing obligations"⁴ The Latin American countries are generally regarded as "successful borrowers" in this respect. The reverse regards DSC as another limitation to the volume of

¹The figures are for 1979.

²Private external indebtedness in 1976 was estimated to be in the order of 60 percent of public debt in Brazil, 35 percent in Mexico and about 20 percent for all Latin American countries; see Jürgen Westphalen, "Latin America's External Indebtedness", *Intereconomics*, No. 9/10, 1977.

³See the survey by P.A. Wellons, *Borrowing by Developing Countries on the Euro-currency Market* (Paris: OECD, 1977) for an examination of "ambivalent borrowers", such as Indonesia and the Philippines, as compared to "eager borrowers", such as Brazil.

⁴Pierre Dhonte, "Describing External Debt Situations: A Roll-over Approach", *IMF Staff Papers* (March 1975), pp. 159-86.

foreign borrowing -- given the prevailing terms of borrowing; the other limitation being the capital absorptive capacity.¹ The issue, here, relates to the ability of the respective country to create investment opportunities. While opportunities may be available, some countries may hesitate to engage in increased external borrowing for a number of reasons.

ASEAN countries, Indonesia and the Philippines in particular, tend to consider the borrowing process to be a dilemma in the sense described above; hence, the attribute "ambivalent borrowers". Experiences of the Latin American countries, which have been engaged in the borrowing process much earlier, especially with regard to the longer-term implications of borrowing, are of particular interest to the ASEAN region. Since the volume of borrowing has its natural counterpart in the terms of borrowing, and the latter affects the return flows over time, analytical studies have extended the capital requirements' "two-gap models" so as to solve the time pattern of debt. Within this framework it was indeed shown that the impact of variation in the terms of borrowing on the debtor's economy is spread over fairly long periods of time.

Earlier works of DSC assessments were sponsored almost exclusively by multilateral and other resources-providing agencies, such as the World Bank, USAID, etc.; these studies assessed DSC in terms of borrowing on commercial (market) terms. They showed that for developing countries to achieve some reasonable target of growth, there is need for softer loans, lower than the ongoing market terms.² DSC studies of this nature have been linked to recommending creditor countries the appropriate terms of aid. With the shift in the structure of external capital supply towards commercial creditors, manipulation of the terms of aid may no longer have a significant effect. Moreover, with the new thrust of Reagan's policies the realm of official development assistance, both bilateral and multilateral, has now become more uncertain.

Analytical studies which provide operational guidelines for developing countries, especially those that are in the process of graduation from one level to a higher level of development, for coping with their debt problems are almost non-existent. However, there is a growing trend in this direction, of

¹See, for example, Raymond Mikesell, "The Capacity to Service Foreign Investment" and "Capital Absorptive Capacity as a Limitation on Lending for Economic Development" in Raymond Mikesell (ed.), *U.S. Private and Government Investment Abroad* (Eugene, Ore.: University of Oregon Books, 1962).

²See, for example, Gerald Alter, "The Servicing of Foreign Capital Inflows by Underdeveloped Countries", in H.S. Ellis (ed.), *Economic Development for Latin America* (New York: St. Martin's Press, 1961).

concern to creditors and debtors alike.¹ Commercial banks' increased participation in international lending to developing countries necessitate them to perform some form of DSC assessment; "creditworthiness" evaluations more or less are meant to set country ceiling in their loan portfolio and not to determine (directly) the terms of lending.² As stated elsewhere, "the appraisal of creditworthiness of anybody -- be it an individual, a business firm or a country -- is a mixture of facts and judgements"³, or as Mikesell put it, "like domestic banking, international investment must be considered an 'art', but there are many things the artist must know."⁴

Latin American countries are in debt in a very big way, but huge loans are made available because several of the major Latin American countries are regarded as extremely creditworthy by the international banking community. As stated by Derek Bamber, contributing editor to *Euromoney* magazine, "although some Latin American countries often have difficulty in servicing their debts, that doesn't stop the lenders, including the so-called hardnosed commercial banks, extending credit to them. To many bankers, Latin America still offers the greatest banking and investment opportunities to be found anywhere in the world."⁵ The question one can pose at this instance is whether the "art" as mastered by many Latin American countries exactly lies in the policy to embark on borrowing in a big way and thereby, sustain a large net inflow of external financial resources which in turn have made it possible for these countries to continuously create new opportunities, which otherwise would have been foregone.

The external debt (including undisbursed) of the seven major Latin American countries amounted to US\$ 15.8 billion at the end of 1969; at the end of 1979 it stood at US\$ 124.6 billion. Over ten years the external debt has thus risen 8-fold. The rate of increase slightly quickened: in the first half of the period (1969-1974) the indebtedness rose by 165 percent, in the second half (1974-1979), or the post oil shock period, it increased by 198 percent. The larger increase was accounted for by Venezuela, which is an OPEC country, and to a lesser extent by both Brazil and Mexico (See Table 4).

¹An examination of the elements of such guidelines can be found in Hadi Soesastro, *Assessing Debt Servicing Capacity of Developing Countries and Implications for Policy: A Survey*, P-6060, The Rand Corporation, Santa Monica, California, December 1977.

²See Harold van B. Cleveland and Bruce Brittain, "Are the LDCs in Over Their Heads?", *Foreign Affairs*, July 1977, pp. 732-50.

³Dragoslav Avramovic, et. al., *Economic Growth and External Debt* (Baltimore: The John Hopkins Press, 1964).

⁴See Raymond Mikesell, *op. cit.*

⁵See the authors article entitled "Borrow Big, Spend Big" in *Latin America & Caribbean 1981-1982* (Essex, England: World of Information, 1981), pp. 58-62.

In 1979 the seven major debtor countries accounted for about 85 percent of Latin America's total external debt; the remaining 15 percent was distributed among the other 15 countries (including the Caribbean countries). The two largest debtors, Brazil and Mexico, shared 58 percent of the region's total external debt. These percentages are, by and large, proportionate to the size of population and national income of the respective groups of countries.

Table 4

EXTERNAL INDEBTEDNESS OF THE SEVEN MAJOR LATIN AMERICAN COUNTRIES
AND THE ASEAN COUNTRIES, 1969, 1974, 1979^a
(in billion dollars)

	1969	1974	1979	Percentage Increase	
				1969-74	1974-79
Latin America					
Argentina	2.33	4.87	11.05	109.0	126.9
Brazil	4.25	13.76	48.36	223.8	251.5
Chile	2.26	4.42	5.46	95.6	23.5
Colombia	1.58	2.77	5.42	75.3	95.7
Mexico	3.43	10.52	36.02	206.7	242.4
Peru	1.13	3.55	8.00	214.2	125.4
Venezuela	0.79	1.89	10.24	139.2	441.8
Total	15.77	41.78	124.55	164.9	198.1
ASEAN					
Indonesia	3.09	9.02	20.96	191.9	132.4
Malaysia	0.52	2.28	4.30	338.5	88.6
Philippines	0.47	2.06	8.96	338.3	335.0
Singapore	0.24	0.68	1.53	183.3	125.0
Thailand	0.41	1.12	5.17	173.2	361.6
Total	4.73	15.16	40.92	220.5	169.9

^aExternal public debt outstanding, including undisbursed.

Source: World Bank, *World Debt Tables*, various issues.

As shown in Table 4, the external debt of the ASEAN countries also rose by about 8-fold over the period 1969-1979, from US\$ 4.7 billion to US\$ 40.9 billion. In comparison with the case of the Latin American countries, the rate of increase of ASEAN's external debt rose faster in the first half of the period (1969-1974), namely by 221 percent, than in the second half of the period

(1974-1979), namely by 170 percent. The two ASEAN oil exporting countries, Indonesia and Malaysia, have slowed down their external borrowing, largely because of their increased oil export revenues. This behaviour differs from that of Venezuela and Mexico, the two major oil exporting countries in Latin America. The Philippines and Thailand have stepped-up their external borrowing, largely as a result of higher oil prices, similar to the case of Brazil.

In the ten years from 1970 to 1979 the rates of GDP-growth in the ASEAN countries were in the order of 6 to 8 percent per annum. The upsurge of investment coefficients in the ASEAN countries could explain the rise in their external indebtedness. In 1960 investments amounted to about 8 to 16 percent of GDP; in 1979 the coefficients rose to about 25 percent for Indonesia and Malaysia, close to 30 percent for Thailand and the Philippines, and nearly to 40 percent in the case of Singapore.¹ These developments had not been possible without the steady inflow of foreign capital. To sustain GDP growth rates of about 7 percent per annum during the 1980s would certainly require continuous -- and perhaps larger -- inflows of foreign resources.

Among the ASEAN countries, the Philippines and Thailand had been hardest hit by the second oil shock. In 1980, oil imports of the Philippines and Thailand constitute about 30 percent of their export earnings, compared to about 20 percent in 1974. In absolute terms, the value of oil imports increased by about 1.5 times during 1974-1978, but doubled during 1979-1980 alone. For all ASEAN countries, the price of money has become a worse problem than the price of oil. The Philippines is especially squeezed by high international interest rates. However, its newly liberalized financial system, namely the removal of interest rate controls on July 1, 1981, puts it in a position to respond strongly if world interest rates go down and demand for its products goes up. The financial system in Thailand is also under pressure by high international interest rates. The Thai Government places a ceiling on interest rates which have been consistently below inflation levels and thus, causing funds to be diverted away from the banking system and makes money hard to find. Ordinarily, banks compensate for the shortage of local deposits by obtaining up to 20 percent of their funds from abroad, usually in US dollars. But with dollar interest rates at or near the Thai ceiling rates (19 percent), banks cannot make money by turning dollars into the national currency and then relending. High US rates also affect Malaysia and Indonesia, as oil and commodity prices slump and as their current accounts turn into deficit and their debt levels continue to grow.

An earlier study on the debt problems of the Latin American countries suggested that the increase of the external indebtedness of these countries over the

¹World Bank, *World Development Report 1981*.

period 1966-1975 cannot be explained by economic growth alone. External occurrences, such as economic slow-down or recession in the industrial countries as well as the oil price rises, have also had an appreciable effect on economic development and the debt situation.¹ This may explain the greater acceleration of the external debt of the seven major Latin American countries in the post (first) oil shock period. In view of current international developments, it is possible that a similar situation may be faced by the ASEAN countries during the first half of the 1980s, and therefore, raising the question of the effects upon the feasibility of the borrowing process.

DEBT MANAGEMENT

The feasibility of a country's borrowing process rests on the ability to sustain roll-overs. The roll-over process is more difficult to manage with the higher share of private capital in the supply of external resources, primarily due to the higher and variable interest rates as well as shorter maturities. In 1979 the share of private capital in the inflows of external resources to the ASEAN countries has increased to about 47 percent from about 12.5 percent in 1969. This share is likely to increase further in the 1980s and thus, could create grave stresses to debt management during this period of transition. The Latin American countries have gone through this process earlier. Although the share of private sources in the total flows of external capital continued to increase and amounted to about 88 percent in 1979 for the seven major debtor countries, the share was already high in 1969, namely about 69 percent.

Table 5 shows the "roll-over ratios" which have been managed by the ASEAN countries and the major Latin American countries during the period 1969-1974 and the period 1974-1979. The roll-over ratio is defined as the ratio of net transfers to disbursements for a particular year, where net transfers are the amount disbursed minus total debt service (amortization and interest) payments.²

During the period 1974-1979, the roll-over ratios for the ASEAN countries ranged between 40 to 60 percent. Compared to the period 1969-1974, the ratios declined for Indonesia and Singapore and increased rather substantially for Thailand and the Philippines. Among the countries of Latin America, only Brazil, Mexico and Peru have had roll-over ratios above 40 percent on average over the 1974-1979 period. There was a drop in the case of Colombia, and the roll-over ratios for Chile and Venezuela even became negative. The latter cases

¹See Juergen Westphalen, *op. cit.*

²Net inflows are defined as the amount disbursed minus principal (amortization) payments.

were due to extremely high negative ratios in the period 1974-1976. Venezuela's roll-over ratios were 64 percent on average in the 1977-1979 period, which suggests that basically, Venezuela does not face roll-over problems. On the other hand, Mexico's roll-over ratios over the period 1977-1979 declined to about 25 percent on average. To be sure, however, declining roll-over ratios does not necessarily suggest that the respective country faces payments problems. In fact, the roll-over ratio may decline when the country's current account balances develop favourably.

Debt management will have to pay greater attention to the rate of growth of debt service obligations. The decade of the 1970s saw a general increase in the rate of growth of debt service obligations of the ASEAN countries. These rates of growth ranged from 30 to 40 percent per annum average in the ASEAN countries in the 1974-1979 period (see Table 5), similar to those in the two major Latin American borrowers, Brazil and Mexico. However, given the different structures of external capital supplies faced by these two groups of countries, the time pattern of debt of the ASEAN countries still is "longer" than that of the Latin American countries. Expressed in terms of a 5-year cumulative debt service obligation (1980-1984) due to the outstanding debt (at the end of 1979) as a percentage of that outstanding debt, as shown in Table 5, the ratio for the ASEAN countries is around 50 to 70 percent (with the exception of Singapore where borrowing on shorter terms has been the practice). This is to be compared with figures ranging from 80 to over 100 percent in the Latin American countries (with the exception of Colombia which has a different debt structure than the rest, namely in that official capital still plays a considerable role).

In the realm of policies for external financing there prevails a strong temptation to utilize a simple operational criterion for debt management. The capacity to service debt often is measured in terms of the ratio of debt service payments to exports, or the debt service ratio (DSR). The DSR has been accepted as a "familiar and most frequently used rule of thumb in appraising creditworthiness of borrowing countries,"¹ or as "a convenient measure of debt burdens, and a factor in determining lending policies."²

Moreover, there also is wide acceptance that the DSR should not exceed 20 to 25 percent.³ Indeed, debt management in Indonesia seems to take this ratio

¹See Dragoslav Avramovic et. al., *op. cit.*

²See Henry Bittermann, *The Refunding of International Debt* (Durham, N.C.: Duke University Press, 1973).

³See Pierre Latour, "Euromarkets Wait for LDC's Credits to be Repaid," *Euromoney* (October 1975), pp. 4-10, stating that "a ratio of 20 percent is reckoned to be a threshold over which it is dangerous to pass." Also see Reed Irvine, Yves Maroni, Henry Lee, "How to Borrow Successfully," *Columbia Journal of World Business* (January-February 1970), pp. 42-48.

Table 5

**NET TRANSFERS AND GROWTH OF DEBT SERVICE OBLIGATIONS IN THE ASEAN
AND SEVEN MAJOR LATIN AMERICAN COUNTRIES, 1969-1979**
(in percentage)

	Roll-over Ratio		Growth of Debt Service Payments		5-Year Cumulative DSP as percent of Debt Outstanding
	1969-74	1974-79	1969-74 (av.)	1974-79 (av.)	
Latin America					
Argentina	3.4	12.3	8.7	13.3	84.2
Brazil	50.8	52.3	19.5	31.6	83.2
Chile	45.9	-18.7	5.1	28.6	93.1
Colombia	42.9	12.4	20.3	13.5	60.6
Mexico	32.5	43.1	11.9	43.3	101.0
Peru	26.2	41.9	23.0	20.0	84.8
Venezuela	11.4	- 8.7	46.6	20.5	105.1
ASEAN					
Indonesia	76.6	42.2	31.8	38.9	47.9
Malaysia	36.0	42.4	20.2	30.2	69.3
Philippines	27.2	57.3	27.3	28.0	57.6
Singapore	73.1	41.7	35.3	30.0	81.0
Thailand	22.8	59.4	6.5	29.0	54.1

Note: On the definition of the "roll-over ratio", see text.

Source: World Bank, *World Debt Tables*, various issues.

seriously. As stated by the Governor of Bank Indonesia, the 20 percent DSR, seen as the "critical" ratio, is a rule-of-thumb used by multilateral agencies and international banks. Since this rule-of-thumb is used by Indonesia's main creditors, it should be applied by Indonesia as well. He further noted that actually, each country's critical ratio is different and depends upon a variety of other factors. However, he thought the 20 percent ratio appropriate for Indonesia, given its high import requirements for capital goods, raw materials, and intermediate goods, which cannot easily be "compressed".¹ The Philippines, which has since the late 1970s exceeded the 20 percent ratio, has often been blamed for mismanagement and therefore, has to face a rather "hostile" environment.

Both in the past as well as at present, loans -- from private and official sources -- have been made available to countries with high DSRs. A high-

¹See *Suara Karya*, January 30, 1978.

ranking World Bank staff has stated that: "An analyst who relies on a single ratio is probably not a very good analyst. In the continuing analytical work that we (World Bank) are doing, we use any of about 25 ratios to get at the financial position of the country in which we are interested, and we use different ratios for different countries. ... I would say that the shortest answer to (the) question is that I don't know what level is 'dangerously' high or too low."¹ The Latin American countries illustrate, at its best, that DSRs are not the determinant factor affecting the supply of external resources. A number of other indicators are considered of more importance for debt management over the longer term (within the framework of the "growth-cum-debt" analysis), such as debt outstanding as a percentage of GDP, as opposed to the short-term liquidity approach to debt management.²

In terms of a number of indicators, the debt problem for the ASEAN countries seems to have worsened over the 1974-1979 period. The situation is in no way critical, but it is closely watched with some mixed feelings. As shown in Table 6, the debt indicators of the ASEAN countries tend to be rising. However, ASEAN's debt ratios generally are still lower than those of the major Latin American countries.

Thus far, the ASEAN countries are looked upon quite favourably by the financial markets. The *Euromoney* magazine's "Country Risk League Table" shows that among major LDC borrowers, the ASEAN economies are high in their credit ratings (based on Euromoney Country Risk factor); the rankings are as follows: Malaysia (1); Indonesia (2); Thailand (7) and the Philippines (17) in 1981. Of these 4 ASEAN countries, the rating in 1981 for the Philippines deteriorated slightly compared to that in 1980, whereas for the other countries the rating improved. Of the seven major Latin American countries, 5 countries are within the group of the top 20 LDCs in terms of credit ratings; they are Colombia (6), Mexico (8), Chile (11), Argentina (14), Peru (19).³ The *Euromoney* survey concluded that the ASEAN countries belong to the 20 best LDCs in terms of their economic performance during 1974-1981 (growth, inflation, trade, etc.); the rankings are as follows: Singapore (2), Malaysia (5), Thailand (8), Indonesia (17) and the Philippines (20). The rankings for the seven Latin American countries are: Mexico (32), Venezuela (35), Colombia (46), Peru (54), Brazil (55), Chile (58), and Argentina (60).⁴ From the way these rankings were constructed it could be seen that inflation was a factor

¹Jo W. Saxe, Chief of the International Finance Division; see, the interview on "Debt", in *Report*, November-December 1976.

²A discussion on the various approaches can be found in Hadi Soesastro, *op. cit.*

³See *Euromoney*, October 1981.

⁴*Ibid.*

which put the ASEAN countries on a higher ranking than the Latin American countries. In general it can be said that improvement of a country's credit rating depends to a large extent upon the policies adopted by that country itself.

Table 6

DEBT INDICATORS: ASEAN AND THE MAJOR LATIN AMERICAN COUNTRIES,
1974-1979 (in percentage)

	Debt Service Ratio		Outstanding Debt (disbursed) as					
			percent of GNP		percent of Export		percent of Reserves	
	1974	1979	1974	1979	1974	1979	1974	1979
Latin America								
Argentina	16.6	16.8	5.5	7.3	66.1	81.9	164.8	69.7
Brazil	36.0	61.1	18.1	26.1	202.5	287.0	347.3	526.5
Chile	18.2	39.2	41.2	37.2	179.5	156.6	1,393.7	377.1
Colombia	21.3	14.1	20.2	14.3	122.8	73.3	471.6	77.2
Mexico	18.8	64.1	13.0	24.6	130.5	178.4	432.9	945.5
Peru	22.9	31.6	19.5	47.4	117.4	146.8	199.0	286.2
Venezuela	4.2	9.4	5.1	21.5	12.4	59.8	18.4	74.5
ASEAN								
Indonesia	3.9	13.4	25.9	29.1	85.2	84.3	423.4	315.6
Malaysia	2.5	4.7	9.5	16.1	18.3	24.5	46.7	60.0
Philippines	12.0	23.2	15.7	24.8	65.5	113.9	139.5	232.4
Singapore	0.6	1.3	10.3	14.8	6.5	7.5	18.2	22.8
Thailand	9.1	13.9	8.7	14.5	36.6	58.9	52.9	127.1

Source: World Bank, *World Debt Tables*, Vol. I, November 15, 1980.

The ASEAN countries tend to adopt rather conservative economic policies, especially in the monetary sector, which they themselves consider to be of utmost importance in the management of the economy. The record of the Latin American countries, in this respect, is less impressive. Still, the Latin American countries have been able to maintain their attractiveness to international creditors and the financial markets in particular. One wonders whether the heavy borrowings by many Latin American countries have resulted not only in the situation where they become dependent upon the willingness of the creditors to continue to supply them, with the necessary capital to sustain the roll-over process, but also where the creditors themselves have become hostage to the borrowers, because of the high stake involved. This "mutual hostage relationship" is perhaps the 'art' of the game.

INTERNATIONAL CAPITAL MOVEMENTS AND DOMESTIC FINANCIAL DEVELOPMENT

Essentially, debt service payments are a fixed contractual obligation which must be met through the balance of payments. As such, external financing introduces rigidity into the country's balance of payments. To counter this effect, the availability of offsets is a requisite to avoid liquidity problems. International reserves are primary offsets. The most common measure of adequacy of country's international reserves is the ratio of reserves to import. However, hoarding of reserves can prove to be too costly for some countries.

Long-term capital flows may function as offsets in a particular sense, namely if it can be used to roll-over past debt. As a country graduates to a higher level of development and concomitantly an increasing portion of external capital is made available from the financial markets, roll-overs may gradually be introduced as a natural process in the external financing of development. In fact, if external capital is "fungible", new inflows can be used to roll-over past debt. Capital from the financial market is potentially more fungible than other types of capital.

Roll-overs have become, more or less, a natural process in the external financing of Mexico's development, because this country has gained the confidence of its main supplier, namely the financial markets. Furthermore, external financial resources supplied to Mexico tends to be more fungible than that, for example, to Indonesia. With regard to the roll-over of capital from financial markets, Friedman argued that roll-overs are not automatic, but are based on the maintenance of a good debt servicing record and on the economic and financial prospects of the debtor country.¹

A study by Sargen examined the "correctness" of the market perception of LDC lending risk. The study showed that on average higher middle-income countries -- such as Mexico -- are paying lower interest spread, and that an increase in the DSR and the rate of (domestic) inflation tend to increase the interest spread.² The "spread" over the base interest rate (three - or six month LIBOR) is assumed to reflect overhead cost, profit, and risk, and is determined on the basis of the borrower's creditworthiness and competitiveness of the market when the commitment is made.

¹See Irving Friedman, *The Emerging Role of Private Banks in the Developing World* (New York: Citicorp, 1977).

²Nicholas Sargen used a simple regression and included a separate dummy variable for Mexico because of the long experience of this country as a borrower in international capital markets. The

The effect of external capital on future debt service obligations is generally seen as the main reason for limiting the magnitude (level) of external financing. But the debtor's concern about the level of external finance also arises from the possible effects of capital inflows on monetary and financial stability, namely changes in the domestic price level. Monetary and financial stability may be affected by both the level and rate of change of capital inflows.

The effects of external capital inflows upon domestic monetary and financial variables have been dealt with sporadically in the literature. Short-term effects are evaluated in terms of the money supply and the accompanying changes in the price level. The monetary financial effects of an exogenous increase in the level of *net transfers* from a prior equilibrium situation will be reviewed in brief. The overall balance-of-payment outcome depends upon the import component of additional expenditures generated by the higher capital inflows. In the event that foreign loans are used to finance local expenditures, the additional external capital flows will initially result in higher foreign reserves and, without sterilization by the monetary authorities, in concurrent increase in the money supply. The subsequent effects cannot be determined *a priori*. These effects also depend upon exchange rate policies. For example, if the exchange rate is pegged, domestic prices will have to increase to adjust to the increased supply of money. High inflation in many Latin American countries may have its source in their exchange rate policy: national currencies have remained pegged to the dollar and their exchange values have been set and periodically altered in discrete amounts by government decision.¹

In contrast to the high inflationary tendencies in the Latin American countries, "growth-cum-inflation" is not favored by the ASEAN countries. This attitude tends to put a constraint on foreign borrowing.

Let R and C denote international reserves and domestic credits, respectively. Furthermore let $m = M/P$ denotes the demand for real money balances,

result was as follows:

$$\begin{array}{rccccccc} \text{spread} = & 1.46 & + & 0.10 & & & & \\ & (15.90) & & (2.80) & & & & \\ & +0.006 & & & & & & \\ & (2.35) & & & & & & \end{array} \quad \begin{array}{l} \text{(High income = 0)} \\ \text{(Other = 1)} \\ \text{(Debt Service Ratio)} \end{array} \quad \begin{array}{rccccccc} - & 0.27 & & & & & & \\ & (4.40) & & & & & & \\ + & 0.005 & & & & & & \\ & (3.80) & & & & & & \end{array} \quad \begin{array}{l} \text{(Other = 0)} \\ \text{(Mexico = 1)} \\ \text{(Inflation)} \end{array}$$

$R^2 = 0.54$ (figures in parenthesis are the t-values)

The result showed that lower-income and lower middle-income countries paid about 0.10 percent more than higher middle-income countries (1974-1975), whereas Mexico paid less than other higher middle-income countries. A 20 percent DSR and a 20 percent inflation would each add 0.10 percent to the spread.

¹See the discussion on this in a report on "Exchange-rate Policy in Latin America", in *World Financial Markets*, published by the Morgan Guaranty Trust Company of New York, February 1982.

where M is the nominal demand for money and P is the price level. Under condition of equilibrium in the market for money, it can be shown that:

$$g_p = r_R \cdot g_R + (1 - r_R) \cdot g_c - g_m$$

where g is the growth rate of the respective variables and r_R is the initial ratio of international reserves to the stock of money.

It can be seen that for a given growth of the demand for money (g_m), the rate of inflation (g_p) can be kept at some targeted level by changing the rate of domestic credit expansion (g_c) to offset any changes in the growth of reserves. Fluctuations in the overall balance of payments (g_R) generate fluctuations in the rate of domestic credit expansion, and the more so, the higher the ratio of international reserves to the stock of money (r_R), but only if instantaneous adjustments are possible. Otherwise, the price level will have to adjust.

Table 7 exhibits movements of the above monetary variables in Indonesia for the period 1969-1976. The large and sudden increase of g_R in 1972 had an immediate effect upon inflation, which increased from about 13 percent in 1972 to 32 percent in 1973. Fluctuations in the growth of reserves become more heavily weighted because the initial ratio of reserves to the stock of money rose from 16.4 percent in 1972 to 31.4 percent in 1973. As a response to the higher rate of inflation, the real rate of growth of money supply was reduced from an average of about 40 percent in the period 1969-1972 to about 12 percent per annum in the period 1973-1976.

Table 7

MOVEMENTS OF MONETARY VARIABLES IN INDONESIA, 1969-1976
(in percentage)

	1969	1970	1971	1972	1973	1974	1975	1976
r_R	21.1	16.5	17.9	16.4	31.4	30.9	38.7	11.7
g_R	42.1	53.2	30.2	188.0	41.3	84.1	-58.4	158.5
g_p	35.4	9.0	5.5	12.7	31.5	40.4	19.0	19.7
g_m	50.7	32.2	36.1	38.1	12.0	6.7	18.0	13.0

Notes: for an explanation of the variables, see text.

Source: The basic data are taken from IMF, *International Financial Statistics*, various issues.

The ratio of reserves to the stock of money is to be kept low in order to dampen the effects of fluctuations in the overall balance of payments upon domestic financial and monetary stability. The above ratio is relatively high in the ASEAN countries, in Indonesia in particular, due to the low level of the stock of money, suggesting that the financial system has not been fully developed in line with economic development in general, which in turn tends to restrict the utilization of external capital.

It can be argued that potential debt management problems in the ASEAN countries have both their structural and monetary aspects, whereas in the case of the major Latin American countries the problem is mainly one of liquidity crises due to short-term developments.

The ASEAN countries at the present time can be considered to be in a transition from aid-dependence to becoming commercial countries.¹ Because they have graduated to higher levels of development they have to face a different structure of external financial supplies which made debt management a more difficult task to do. Moreover, efforts need to be made to develop their financial system towards greater efficiency in savings, investment and production in general. The need for these countries to restructure their economies, the industrial sector in particular, in order to sustain economic growth and development, puts additional pressures to financial management.

CONCLUDING NOTES

Two important characteristics underline the correlation between the structure of external capital supplies and the level of development. The first relates to the degree of non-fungibility and inflexibilities of external capital. The second characteristic relates to the roll-over mechanism implicit in the supply of external capital.

Non-fungibility results from the fact that external capital is largely provided for prespecified projects. In the 1970s only about 15 percent of total capital supplies to LDCs does not have a sectoral specification. The degree of non-fungibility of external capital supplies tends to vary with the level of development. As a country moves to a higher per capita GNP level, program aid is gradually substituted with project aid or other project loans. As a result of domestic financial development, higher income LDCs may be able to enter the

¹See David O. Beim, "Rescuing the LDCs", *Foreign Affairs* (July 1977), pp. 717-31, for the distinction between commercial and aid-dependent countries.

market for external capital through its banking and financial system. When domestic financial markets become integrated to the international financial markets, external capital supplies become more fungible.

Similarly, a different roll-over mechanism is implicit in each type of external capital. Roll-overs of debt is usually not particularly relevant where a large portion of external capital is supplied in the form of program aid, which is usually provided as grants anyway. However, once a country advances to a higher development stage, repayments of loans become a rigid element in the balance of payments. At the same time that the terms of borrowing hardened, debt becomes more difficult to roll-over. New loans are provided for the financing of prespecified projects, and cannot easily be transformed into free foreign exchange for the servicing of past debt. For higher income countries, where a larger part of external capital is made available from the international financial markets, roll-overs theoretically become a natural process in the external financing of development, but under conditions of further hardening of the terms. These changes are, perhaps, inevitable in the process of development. The challenge faced by the ASEAN countries today is the transformation from being aid-dependent to become commercial countries. Only if they succeed to doing this are they truly graduating into a higher level of development.

ASEAN and Pacific Economic Co-operation

RECENT DEVELOPMENT

On 2-5 June 1982 the Pacific Economic Co-operation Conference was held by the Thailand Pacific Economic Co-operation Committee and ESCAP in Bangkok to discuss the significance of the Pacific economic interdependence to the ASEAN economies. Discussions were also held on the need for a new forum for economic co-operation among the Pacific Basin countries to facilitate economic transactions while minimizing conflicts and on the most viable forum of economic co-operation in the immediate, medium and long-run.

Sixty participants and observers from academia, government, and the business sector, representing Australia, Canada, Chile, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, the United States, ESCAP and OECD participated in the conference in their individual capacity.

The Conference concluded that:

1. The economies of ASEAN are closely linked to the economies of other Pacific Basin countries, and that economic co-operation with these countries would enhance economic progress of ASEAN;
2. There are several issues of economic relations in the Pacific which are neither sufficiently nor effectively dealt with at international and bilateral forums. Often these issues call for considerations from the three sectors, i.e. the private sector, the government and the academia. In addition intra-Pacific regional co-operation could contribute towards a more open world economic order. Issues of immediate concern are trade in manufactured

goods and primary commodities (in raw as well as processed forms), and investment and transfer of technology.

The Conference was of the opinion that Pacific economic co-operation at the immediate stage should take the form of a series of tripartite consultative meetings to review matters of common concern to the Pacific Basin countries and to pass on recommendations to the respective governments and relevant organization.

In order for the tripartite consultative meeting to be effective the Conference agreed to set up the following mechanism:

1. A Standing Committee is to be formed which will be responsible for the organization of the next conference. The Committee will consist of Dr. Thanat Khoman, General Ali Moertopo, Sir John Crawford, Dr. Saburo Okita, Mr. Eric Trigg, Mr. David Sycip, Dr. Nam Dug Woo, Ambassador Richard Sneider. The Secretariat of the Standing Committee will be located at the CSIS, Indonesia, which will host the next conference in 1983.
2. Four task forces, one each on trade in manufactures, trade in agricultural products, trade in minerals, investment and technology transfer, are to be organized by various institutions as follows:
 - trade in manufactures, Korea Development Institute;
 - trade in agricultural products, Pacific Economic Co-operation Committee of Thailand;
 - trade in minerals, Australian National University;
 - investment and technology, Japan Special Committee for Pacific Co-operation.
3. The task forces are to prepare substantive reports to be reviewed by the next consultative meeting. In the preparation of the report it is necessary that the tripartite views be fully reflected. This can be achieved by organizing various forms of meetings, consultations, review committee, etc., nationally as well as internationally as part of the report preparation.

Earlier in 1981, CSIS had organized a study group on ASEAN and the Pacific Community which consisted of scholars from the five ASEAN countries¹. The report by the study group is presented here.

¹Members of the study group were Narongchai Akrasanee from Thailand, Mohamed Ariff from Malaysia, Jesus P. Estanislao from the Philippines, Pang Eng Fong and Augustine H.H. Tan from Singapore, Hadi Soesastro and Jusuf Wanandi from Indonesia. Views from non-ASEAN countries were presented to the study group by Tsuneo Iida from Japan, Lawrence B. Krause from United States and Peter Drysdale from Australia.

ASEAN AND THE PACIFIC COMMUNITY

I. INTRODUCTION

The Pacific Community is both a twentieth century reality and a twenty-first century vision. It is a present reality, because it manifests itself in many ways in the process of economic, social and cultural interactions that take place between the various countries in the Pacific region. It is a vision, because it is amorphous without being institutionalized or structured.

We cannot, of course, speak of the Pacific Community as an end in itself, except as a means toward an end. The Pacific Community is likely to suffer an abortive take-off, if it amounts to nothing more than cooperating for the sake of cooperation. However, it is believed that the formation of the Pacific Community could contribute significantly toward peace, stability and prosperity of the Pacific region as a whole.

Visionaries see a shift in the centre of gravity from the Atlantic to the Pacific in the twenty-first century and there are already unmistakable signs of new dynamism and growing interdependence among the Pacific countries. But, dynamism, growth and interdependence create serious problems for policy makers and practitioners, which require regional solutions on a multilateral basis.

The process of community-building in the Pacific region seems to have been fueled by the rising tide of regionalism the world over. Economic recession, inflation, balance of payments deficits and other economic problems, which plague even the advanced countries, have reinforced this trend towards the polarization of the world economy into regional groupings.

The present report is a joint undertaking by individuals from the five ASEAN member countries to address and examine the main issues on the Pacific Community idea which are of interest to ASEAN. It has been found necessary to study the subject more closely from ASEAN's perspective in view of the importance attached to ASEAN's role in the realization of the idea.

In the conference on "Asia-Pacific in the 1980s" organized by CSIS in Bali (January 11-13, 1981), a number of participants urged the ASEAN countries to take a positive view of a broader Pacific cooperation, arguing that this

would be to their advantage, particularly in terms of access to markets. This argument was linked with some warnings about the dangers of concentrating inwardly on intra-ASEAN trade. A number of participants even urged the ASEAN countries to take the initiative in establishing a Pacific Community since they had already succeeded in forming an effective sub-regional group which could be used as a building block for a larger organization. Other participants noted that there seemed to be some reluctance on the part of ASEAN to take initiative for fear that in so doing, the existing structure of ASEAN would be undermined. Some had argued that ASEAN was now strong and established internationally so that participating in a wider arrangement need not weaken ASEAN but might well strengthen it. This would particularly be the case if the ASEAN countries helped shape that arrangement and identify the problems it should deal with. It was noted, however, that ASEAN in no way should be considered uninterested in forming a Pacific Community since the matter had never been discussed within ASEAN.¹

This report is meant to stimulate discussions within ASEAN among a wider audience, including governments, scholars, politicians, journalists and the business community. The present report is not based on an in-depth study of the "cost and benefit" of the Pacific Community to ASEAN.² Rather, it offers a frame of reference to approaching and identifying the relevant issues from ASEAN's point of view.

II. RECOMMENDATIONS

The Study Group made the following recommendations:

1. Structure of Pacific Community

The Study Group endorses a loosely-structured non-governmental organization in the line of the Pacific Cooperation Committee (PCC) comprising influential business and academic personalities. Government officials should also be invited to participate in their private capacity. The organization

¹See CSIS Conference on *Asia-Pacific in the 1980s: Towards Greater Symmetry in Economic Interdependence -- A Report* (Jakarta: CSIS, 1980), pp. 18 and 25.

²A study of this kind is being undertaken by ESCAP.

would focus on economic, environmental, social and cultural issues. Such an organization would not jeopardize ASEAN's non-alignment posture, nor would it affect its relations with the EEC, the Middle East, the Group of 77, UNCTAD, etc.

2. Recommendation to ASEAN

The Study Group recommends that ASEAN foreign and economic ministers should officially discuss the Pacific Community concept and take the initiative in defining the organizational form of the idea and its terms of reference when they judge the situation opportune for establishing a more formal structure of cooperation with government involvement.

The ASEAN ministers should be kept informed about the activities of the PCC. They should consider appointing ASEAN representatives on a private basis and provide financial contribution to the PCC.

3. ASEAN-Pacific Cooperation Committee (ASEAN-PCC)

The Study Group also recommends the setting up of an ASEAN Pacific Cooperation Committee (ASEAN-PCC) with three members from its country: an academician, a businessman and a government official in his/her private capacity.

The objective of the ASEAN-PCC shall be:

- a. to propagate the Pacific Community idea to a wider audience;
- b. to promote study and research of Pacific issues relating to economic, environmental, social and cultural matters;
- c. to coordinate the interests and activities of various groups which are interested in the Pacific Community concept;
- d. to exchange views and develop the idea together with groups outside ASEAN;
- e. to channel appropriate reports to ASEAN and other governments.

4. ASEAN-PCC Secretariat and Funding

The Study Group recommends that TURA Institute of Thailand be the coordinating secretariat for ASEAN-PCC. It also recommends that research

and training institutions in each ASEAN country be invited to participate in promoting and raising funds for ASEAN-PCC, e.g. ERC and ISEAS in Singapore, INTAN in Malaysia, CSIS in Indonesia and the Center for Research & Communication in the Philippines.

III. THE PACIFIC COMMUNITY IDEA

A Review¹

There is as yet no government endorsement of the specific proposals that have been suggested to enhance economic co-operation in the Pacific region. However, there is growing unofficial agreement on ways to expand Pacific co-operation.

The forces promoting economic dynamism and interaction in the Pacific are by now well-known. They include improved transport and communication links, the rise of Japan as the second largest market economy in the world, and the rapid development of the East Asian and ASEAN economies. A negative factor -- economic stagnation in Western Europe -- has also contributed to the growing importance of Pacific Basin countries in the world economy.

Intra-regional investment flows, too, have accelerated with the spread of Japanese and American firms and the growth of regional financial centres in Singapore and Hong Kong. Today, well over half on the trade of Pacific market economies is conducted among themselves. ASEAN's economic interaction with Pacific countries is even greater: Pacific market economies alone account for over two-thirds of ASEAN's total trade.

While growing economic interdependence has strengthened Pacific economic growth, there is plenty of potential gain from economic cooperation. One good indicator of this is the discrepancy between trans-Atlantic and trans-Pacific ocean-freight and airline rates: Pacific rates are much higher. Greater economic interaction among Pacific countries has also increased the potential for conflicts among countries in the region.² One example was the recent Australian-ASEAN controversy over ICAP policy. An increased awareness of economic interdependence in the Pacific by policy-makers does

¹Prepared by Pang Eng Fong.

²For examples, see Lawrence B. Krause, "The Pacific Economy in an Interdependent World", in *Pacific Economic Co-operation*, pp. 129-31.

not, of course, mean that damaging unilateral actions will cease. But it should improve a country's understanding of the international consequences of domestic economic policies.

Several well-known models have been suggested for the proposed Pacific Community. These include a Japanese proposal in the 1960s for a Pacific free trade area or a common market; a proposal for an organization for Pacific trade and development, which calls for intergovernmental consultations along non-bureaucratized OECD lines; and an informal and private consultative forum, made up of representatives from government, the business sector and academia, to promote information exchange and **organize** task forces to study specific regional issues.

It is useful to review the various institutional arrangements suggested for Pacific cooperation. The highest level of cooperation is economic integration in the form of the European Community. Since most potential candidates for membership differ greatly in development level, resource endowments, size, culture, and global orientations, this form of cooperation is not possible. Even as a long-term goal, a common market in the Pacific is unlikely to come about.

A second option is an OECD-type association to coordinate and **harmonize** economic policies among member countries. Like the common market idea, such a body too presumes some common level of economic development and interests, and would not be suited for the Pacific at present.

A less structured arrangement is an **organization** for Pacific trade and development (OPTAD), which would provide an inter-governmental consultative forum for the discussion of regional trade, investment and aid issues. This proposal has generated considerable interest. Most ASEAN observers, however, view its **elaborate structure as premature**.

A Pacific **organization** modelled after the Commonwealth of nations has also evoked some interest. The Commonwealth association groups former British colonies together to facilitate consultations among governments in an informal atmosphere. Its ability to transcend differences in ideology, culture and economic conditions makes it particularly attractive as a possible long-term model for Pacific Basin countries.

Less formal **organization** have also been proposed. Japan's Study Group on the Pacific Basin co-operation concept, formed in early 1979 as an advisory body to the late Prime Minister Ohira, recommended in 1980 the establishment of a private standing committee of 15-20 "persons of authority". The commit-

tee would initially manage a series of international conferences on Pacific cooperation. It could then become an informal consultative forum for discussion on regional issues of common interest, establish "working groups" to study regional issues, and make recommendations by consensus. In the longer-term, the committee could develop into an inter-governmental consultative organization with a permanent secretariat. The Study Group stressed that membership should be open to all countries interested in regional cooperation.

The Pacific Community Seminar sponsored by the Australian government and held in Canberra during September 1980, has suggested the establishment of a Pacific Cooperation Committee (PCC), made up of a mixed group of influential government, business and academic personalities. The PCC will be a standing committee of twenty-five persons whose function would be to promote information exchange and organize task forces to study regional issues. It parallels earlier suggestions for a "Pacific Commission" by Takeshi Watanabe, a "Pan-Pacific Community Association" by Lester Wolff, and a "Pacific Rountable" by Cyrus Vance. All stress the importance and usefulness of regular consultations and exchange of ideas among officials, businessmen and scholars in an informal atmosphere. They aim at improved consultation, understanding and resolution of regional problems. Given the great differences among Pacific Basin countries, informal forums to promote Pacific Cooperation are all that can be set up at present.

Such informal forums by involving influential officials, business leaders and senior scholars in the Pacific region can help develop gradually the spirit of Pacific Community among political leaders. At this stage, it seems desirable to have more than one such informal forum because each forum can have different members serving in their private capacities. The greater the number of influential persons involved in promoting the Pacific Community concept, the greater would be the interest they can generate in a more formal organization to facilitate official consultations among Pacific Basin countries.

Even at the low-keyed informal forum level, there are issues of representation and operation. The Canberra Seminar suggested that the core members of the PCC should include the five ASEAN members, Australia, Canada, Japan, New Zealand, South Korea, the South Pacific islands as a group and the United States, that is countries that participated in the Canberra meeting. The meeting also stressed that participation in Pacific economic cooperation should be kept open. Membership in functional Task Forces, which would be initiated by the PCC, should therefore be open to all who are interested in joining. Thus the Pacific Task Force on, say, **energy**, could include Latin American countries as well as China. The Task Force on Pacific Trade could

include Taiwan and Hong Kong. Such an approach to the question of membership is innovative and gets around the potentially crippling "membership" issue.

The informal Task Force could tackle such issues as industrialization, trade, investment and structural adjustments in the Pacific; energy production and trade; Pacific ocean resources; financial markets, transportation and tourism. While Task Force reports may help to improve inter-governmental consultation, the practice of regional consultation that they encourage is, in itself, a desirable goal.

There is general agreement that informal forums are the best way to advance the Pacific Community concept. The next step should be to define clearly the priority areas that such forums should focus on. Initially such forums, whether it is the PCC or the standing committee suggested by the Pacific Basin Cooperation Concept Study Group, should organize task forces on a few key issues of interest to a large number of Pacific Basin countries.

Except in general terms, qualifications for individual membership in the suggested informal forums have not been defined. The next step must surely be to invite some key individuals from both developed and developing Pacific Basin countries to be members. The question is who should invite individuals to be members. Initiatives by individuals from developed countries, if taken without consultations with developing countries, may be counter-productive. Initially, it may be useful to consider drawing on the services of an organisation in developing countries, even one within ASEAN, to act as a secretariat for an informal forum. This institution could then choose forum members on the advice of and in consultation with governments, the business community and senior scholars in the region. Funding of the secretariat could come from voluntary contributions by interested bodies, both official and private. The forum would then initiate Task Forces. The choice of topics to be studied must reflect common interests. An important issue would be to develop lines of communication to government on the reports by Task Forces.

Future steps in enhancing Pacific economic cooperation would depend on the forum's effectiveness and governments' response to its deliberations. For the future, it is not inconceivable to think of an association of Pacific countries modelled along the Commonwealth of nations, with regular Heads of State consultations on regional issues. Meanwhile, ASEAN may prefer that the Pacific Community idea be carried forward step-by-step in a way that enhances regional economic cooperation but does not undermine the identity, solidarity and effectiveness of ASEAN as a sub-regional group.

Concept and Structure (by Mohamed ARIFF)

The focus of this section is not on the substance of Pacific cooperation but on the structure of it. The Pacific Community structure will not only determine the form and extent of regional cooperation in the Pacific area, but also have an important bearing on the division of gains among the member countries. The question of the structure of the Pacific Community is of special importance to the ASEAN countries which already have a sub-regional identity of their own. Whether or not the ASEAN countries will participate in the wider regional cooperative effort in the Pacific area would hinge crucially upon the degree of regional integration envisaged for the Pacific Community. In what follows, an attempt is made to describe briefly the kind of Pacific Community that might be acceptable to the five ASEAN countries.

First, a regional community that undermines the strength and cohesion of ASEAN as a sub-regional entity is clearly not in the interest of ASEAN. Second, a regional community premised on a lop-sided relationship of ASEAN dependence and Big Power domination with any semblance of neo-colonialism is completely out of the question insofar as the five ASEAN countries are concerned. Third, a regional community that weakens ASEAN's extra-regional links, undermines its existing intra-regional, bilateral and multilateral arrangements or dilutes its bargaining position vis-a-vis third countries is clearly one that ASEAN must avoid at all cost. Fourth, a regional community that is antithetical to ASEAN's posture of non-alignment in Big Power politics and Third World solidarity in international negotiations cannot be comfortable for ASEAN to stay in.

Given the political, social, cultural, economic, linguistic and religious diversities and realities that exist within the vast Pacific Basin region, only a loose structural form of regional community will be most acceptable to all its potential members. This implies a rather low degree or level of regional integration. In fact, the Pacific Community protagonists may well be advised to aim at a level of regional integration that falls below that which has been achieved by ASEAN, so that the latter is not overwhelmed by the wider regional grouping. This rules out the possibility of the Pacific Community partaking of the character of a full-fledged free trade area, customs union, common market or economic union. The Pacific Community will therefore have to assume a much less ambitious form than what these grand models of regional cooperation would suggest.

The focus of the Pacific Community, then, would be not on the integration of economies but on the promotion of cooperative solutions to commonly ex-

perienced problems. It should be essentially a non-military organization which aims at regional cooperation on economic, social, cultural and environmental matters of common interest with primary emphasis on issues relating to trade, investment and development in the Pacific region. Initially, its role will be to provide a forum for discussion and consultation among member countries on matters of common or mutual interest. Such discussions and consultations, by shedding light on issues and problems, would help member countries arrive at better policy decisions than would be possible otherwise. The Pacific Community could thus meaningfully contribute toward a more intelligent management of the Pacific economy, without having to be an intra-regional negotiating body or a supranational organization whose decisions will be binding upon the member countries. To put it differently, the Pacific Community would be concerned primarily not with the formulation, coordination or harmonization of policies but with policy analysis and policy consultation for purpose of promoting and encouraging rather than regulating and controlling the private sector activities.

Given the above "terms of reference", the Pacific Community need not have to be entirely inter-governmental. It is both feasible and desirable to involve the private sector and the academia, in addition to the governments of the region in the deliberations of the Pacific Community affairs. Nonetheless, governmental participation is absolutely essential.

Another striking feature of the proposed Pacific Community is its North-South axis, as it includes both developed and developing countries. It is this North-South axis which injects novelty into the proposed Pacific Community structure. Unlike the North-South axis implicit in the unequal and asymmetrical relationship between the EEC and ACP countries under the Lome Convention, the Pacific Community's North-South axis is one characterized by equality, interdependence and symmetry. Unlike the Commonwealth, the North-South axis of the Pacific Community will be oriented toward serving the policy needs of the member countries in the social, economic and cultural fields rather than toward political issues.

The Central Secretariat of the Pacific Community may well be on a modest scale initially, quite unlike the elaborate outfit of the EEC or of the OECD. The Secretariat will function mainly as the regional center for problem - and policy - oriented studies, intra-regional discussions and consultations, and dissemination of information which would provide valuable inputs into *independent* policy making by individual member countries. Excessive bureaucracy, which might weaken rather than strengthen the existing private linkages in the Pacific area, should be avoided.

The question of membership of the Pacific Community also needs to be resolved. That the Pacific Community will include both developing and developed countries on an equal basis is readily clear. Given that the proposed Pacific Community is tripartite and not purely inter-governmental and given the importance attached to private sector participation in the scheme, it would be pragmatic to limit, at least initially, the membership to market-economy countries, notwithstanding the principle of ideological and political non-discrimination on which the organization is ostensibly based. It is not at all important that all market-economy countries in the Pacific Basin should become members of the Pacific Community. But, it is very important that the country composition should adequately reflect the North-South axis referred to earlier. It is in this sense that the participation of the North nations like Japan and Australia and the South nations like the ASEAN and the South Pacific Forum countries becomes crucial. Those countries with strong intra-regional private linkages in the Pacific Basin will find the Pacific Community proposal more interesting than those without such well-developed private linkages. In any case, free entry and free exit should provide the basis on which the Pacific Community can grow and evolve itself.

Given the low profile of the Central Secretariat of the Pacific Community, the magnitude of the overhead and the recurrent expenditures can be kept at manageable levels. Obviously, financial contributions by the member countries cannot be the same for all countries, given the North-South axis. The North countries will have to make larger contributions than their counterparts of the South. Financial contributions may be determined by a formula which takes due account of the differences in per capita income, intra-Pacific trade flows, size of international reserves, etc. between countries.

It will be in the interest of ASEAN to participate in such a wider regional cooperative effort without having to sacrifice anything. ASEAN would then have an *additional* mechanism to sort out some of its difficult external problems. In a very loosely structured Pacific Community, ASEAN cannot be bound to do anything that would conflict with its own internal and external interest or constrained in any way from acting independently. A Pacific Community which excludes ASEAN is clearly not in the interest of ASEAN.

A loosely structured Pacific Community would allow ASEAN to maintain if not strengthen the ties it has developed within itself but also with the North and South countries of the Pacific and the rest of the world, and to remain at the same time non-aligned in an increasingly polarized world. Seen in this perspective, it will be in the interest of ASEAN to join such a Pacific organization as a group rather than as individual members.

The establishment of a Pacific Cooperation Committee (PCC) consisting of government officials, businessmen and academicians, as proposed by the Canberra Conference, is consistent with the approach suggested above. The main function of the standing committee of 25 persons from the governments, private sector and academia of the member countries will be to organize task forces to study regional issues and to promote information exchange. By being a participant in the PCC, ASEAN will be in a position to influence the economic affairs of the Pacific Basin, without having to make trade offs of any sort elsewhere.

IV. ISSUES OF RELEVANCE TO ASEAN

Economic Issues¹

The following section intends to outline some regional economic issues relevant to ASEAN in Pacific Community discussion without attempting to make a case for or against regional cooperation from the point of view of ASEAN.

The regional economic issues are meant to be issues relevant to the discussion on the formulation of a Pacific Cooperation Committee (PCC) to consult on and co-ordinate regional problems. The PCC is intended to be a private, non-profit organization, but with government participation through the appointment of senior government officials, in their private capacity, to one third of the Committee.

The relevant economic issues in the Pacific Community discussion are issues which are regional in nature, or other issues which have regional implications. For example prospect for trade in manufactures among the Pacific countries depends very much on changing industrial structure of these countries. Protectionism is a result of an unbalanced industrial structure of the trading countries, and hence is a regional problem. The bilateral trade problem between the United States and Japan could result in Japan's investing more in the United States and thus having less funds to invest elsewhere.

The economic issues relevant to ASEAN are the regional economic issues as defined above, which may affect the ASEAN economy directly as well as indirectly. To discuss those issues it is necessary to first understand the external economic relations and strategy of ASEAN.

All ASEAN economies are open in the sense that foreign trade and investment are some of the most important economic activities of the countries. All

¹Prepared by Narongchai Akrasanee.

countries are export-oriented, at least as far as primary commodity exports are concerned. All also promote manufactured exports although some countries continue to protect domestic industries at the same time. Foreign investment is encouraged in every country, with varying degrees of generosity in terms of incentives.

ASEAN has pursued the open economy strategy as outlined above on a global basis. A bilateral approach has been used if a particular product involves a particular buying country. A regional approach has been pursued only at the ASEAN sub-regional level. Economic activities at the ASEAN sub-regional level are much less important to ASEAN than its economic relations with other countries.

Because of the global economic and business strategy pursued by ASEAN, the pattern of external economic relationship of ASEAN has been influenced by the changing international economic situations. First, because of the difference in resource availability, ASEAN trade has been mostly with the industrialized countries particularly the United States, Western Europe, and Japan. Foreign investment in ASEAN has also come mostly from these countries. Recent changes in the price of oil have resulted in the Middle East being much more important than before to ASEAN as a trading partner. The rapid rate of industrialization in the East Asian countries such as Korea, Taiwan and Hong Kong has also led to a significant rise in the relationship between ASEAN and these countries.

If ASEAN is to consider how important cooperation with the Pacific Basin countries is to ASEAN, ASEAN would have to see how important the economic activities with the Pacific Basin countries are, and whether the trend is such that these activities would become even more important. Furthermore, ASEAN needs to know the regional dimension of its relationship with the Pacific countries. Finally, the nature of the bilateral and regional interdependence needs to be clarified.

The degree of importance of economic relationship of ASEAN with the Pacific Basin countries may be gauged from the following statistics. ASEAN trade with the Pacific countries in the late 1970s was about 70 percent of the total ASEAN trade. As for foreign investment, almost 90 percent of investment in ASEAN are from the Pacific sources.

We have not been able to obtain enough information to say whether the trend of the ASEAN-Pacific economic activities is growing. General observation has led us to believe that it is the case. This is because of the dynamism of Japan and other East Asian countries, the strength of the United States

economy, and the resource abundance of Australia and Canada. Since ASEAN is a market economy, which is already linked with other Pacific market economies, market forces would likely generate more economic activities between ASEAN and the Pacific Basin countries. There is now enough evidence to show that the economies of the United States, Japan and Australia will be linked more with each other and with other Pacific Basin countries.

While it is clear that there is a high degree of economic activities in the Pacific, which also seems to be growing, the regional dimension of these activities has not been well established especially as far as ASEAN is concerned. The economic relationship is seen to be more bilateral in nature rather than multilateral or regional. It may be argued, however, that, because of the differences in production structure and with the economies linked through trade and investment, most international economic issues in the region would involve more than two countries. For example most issues on industrialization of ASEAN especially those relating to the modern part of the industrial sector must be viewed in a regional perspective. ASEAN can no longer promote certain industries without taking into consideration the development of those industries in Japan, Korea, Taiwan, etc. Trade in primary commodities is involving not only the buying and the selling countries, but also third countries which may be the end users of those products. And in foreign investment a growing number of projects now involves more than two countries. Even a project involving two countries may have implications on some third countries.

Another aspect is that ASEAN tends to view many economic problems in a global context. For example problems in the North-South debate such as prices of primary commodities, protectionism against manufactured goods, resource transfer, technology transfer etc., have been treated at global level. All developing countries at different stages of development have been treated similarly in the debate, which has been a cause of the deadlock. We may argue that the North-South problems may be different in different regions. The North-South problems in the Pacific are considered to be different from elsewhere, because ASEAN countries are not considered to be poor countries among the LDC's. In this sense these North-South problems in the Pacific have a regional dimension.

The United States, Japan and Australia see their economic activities to be growing faster in the Pacific area than elsewhere. This is why some people in the three countries would like to see their people and leaders pay more attention to economic development in the Pacific. They have proposed cooperation in the Pacific, arguing that it would facilitate the process of economic development in the Pacific. ASEAN may want to consider more realistically the

motivations of these countries in having more cooperation in the Pacific. It may turn out that the motivations are simply economic, which may be in the interest of ASEAN as well.

The most difficult aspect of economic relationship in the Pacific to settle is economic interdependence, both bilateral and regional. ASEAN tends to view itself as being dependent on the advanced countries, and the argument about interdependence at the regional level is thought to be even farther away from reality. This perception of ASEAN shows that ASEAN does not recognize its own significance among the Pacific Basin countries. That is, other countries in the Pacific also depend on ASEAN at least for some products which ASEAN exports. The interdependence at the regional level is also seen to be growing, largely because of the increasing role played by the newly industrializing countries in the Pacific. However we need more empirical analysis to establish the case.

Some of the areas in which the Pacific countries are considered to be interdependence are food and resource security. The United States, Canada, and Australia are food surplus countries. ASEAN as a whole and other East Asian countries are food deficit countries. On the other hand ASEAN, Australia, Canada are resource surplus countries while the East Asia countries are resource deficit ones, but with a very strong capability of producing manufactured goods. By viewing the countries in the Pacific this way the nature of economic interdependence may be recognized.

Because of the perception of some high-level policy makers about the regional dimension of the ASEAN—Pacific economic relationship and the nature of the Pacific economic interdependence, ASEAN has not considered these to be important issues in the formulation of its foreign economic policies. This is to be expected because the cases have not really been established. What we have said above are largely speculative. More efforts need to be made in order to clarify the regional dimension and the Pacific economic interdependence.

If ASEAN were to state its position on the suggestion to form a Pacific Cooperation Committee, ASEAN would naturally want to consider how useful the PCC may be to ASEAN. Its usefulness depends on the regional issues and the issues of interdependence. Our impression is that there are enough issues to justify ASEAN's interest in the formulation of the PCC. While we have not been able to empirically demonstrate the regional issues or the issues of interdependence we have stated above that there is evidence to indicate that trade in primary commodities and in manufactures, industrialization, foreign investment, and food and resource security, involve some

regional issues which would benefit from a regional consultative forum like the PCC. If necessary, ASEAN may want to undertake a study or to organize a seminar to establish the regional dimension and the extent of interdependence of its economic relationship with other Pacific countries before it takes a stand on the Pacific Cooperation Committee.

Political Issues¹

The political implications of the Pacific Community idea as discussed in this section only emerge when this regional form of cooperation is inter-governmental in nature. The problem of differences in ideology and economic systems as reflected in the issues relating to membership of the community as well as the problem of leadership in the formation of the community become real issues when an inter-governmental organization is being contemplated.

The weight of the above political issues also depends upon the intensity of cooperation. A common market type of cooperation definitely would entail strong political collaboration among the respective governments. This would not be the case in a loosely-structured non-governmental organization, such as the Pacific Cooperation Committee (PCC), whose primary objective is to facilitate consultations among its members on substantive and common economic problems.

As mentioned above, the most important political issues of an inter-governmental Pacific organization is the membership problem, namely whether or not its membership will be selective. Since the objective of the Pacific Community is not to create a political or military alliance, its membership in principle should not be based on ideological considerations. If the Pacific Community were to be an exclusively inter-governmental organization, then all littoral countries in the Pacific region should be eligible for joining this regional organization. However, if it is to be set up as a loosely-structured, non-governmental consultative grouping, this non-discrimination principle is not crucial. It could involve only market economies. Nonetheless, it would be wise to explicitly state at the outset the support for the principle of non-discrimination.

In view of the present political realities in the region, it may be difficult to apply this principle of non-discrimination. The politico-security environment of the Asia-Pacific region is quite complex due to the fact that in this region the four big powers meet. All of them, the United States, the Soviet Union, the PRC, and Japan, are affecting developments in the region as a whole in a variety of ways. Keeping the big powers in this region in balance would

¹Prepared by Jusuf Wanandi.

guarantee the stability of the region, especially in Southeast and Northeast Asia. ASEAN has put a high premium on a balanced relationship with the big powers. Thus, to be able to engineer such a structure of relationships would be beneficial over the long run. However, the Sino-Soviet conflict complicates the situation. It is also a fact that at this stage some Southeast Asian countries feel quite uncomfortable with both the PRC and the Soviet Union or either one of them being included in this community.

It has been suggested that for practical reasons, in this first stage, there could be two kinds of members. The so-called core members would consist of the five ASEAN countries, South Korea, the South Pacific, and the five industrialized countries, namely Japan, Canada, Australia, New Zealand and the United States. All other littoral countries would be invited to join the various committees (task forces) established by the core members; a committee on energy, for example, must include the PRC, the Soviet Union and Mexico.

The second political issue regards the problem of leadership, namely who should and would take the initiative. For the realization of the Pacific Community idea it cannot be avoided that there must be a country which would take the lead. Essentially, the country that could take the initiative is the one which is ready to bear the necessary financial burden, the one which has a great self-interest in this kind of cooperation, but at the same time be willing to give concessions which are attractive to other countries, especially the developing countries, in the region. Such concessions could be in the form of guaranteed access to its market for goods produced by the developing countries, and a readiness to give full support to some kind of a STABEX mechanism for the products of the developing countries as well as trade preferences which are not in violation of GATT or other multilateral trade agreements.

Two developed countries have been identified as the potential leaders; they are the United States and Japan. The United States does not seem to be in the position to take this leadership role, if only because she is not prepared to bear the necessary burden. A US leadership also would complicate the political overtones of the cooperation. This leaves Japan as the only potential leader. Whether Japan is ready to accept this role remains questionable, but there does not seem to be an alternative to this.

While the United States is not to be expected to play the leadership role in establishing the Pacific Community, the presence of a multilateral structure in the Pacific could have significant effects upon United States relations with the countries in this region. The United States is still oriented primarily towards the Atlantic. Therefore, a multilateral structure encompassing the region could bring the region closer to Washington's attention. This could be the most ap-

propriate way to deal with a country such as the United States. Short of this structure, the United States tends to give proper attention only to crisis regions. As often proven to be true, in a crisis situation things tend to be handled in the wrong way.

Japan recognizes its great interest in the stability of the Asia-Pacific region. It needs such an environment because of its large stakes in the region. Generally, it has been acknowledged that Japan plays an important role in the region. However, because Japan is an economic power it should also recognize that it has a political influence and a political responsibility. In fact, Japan is now in the process of formulating a comprehensive political role which is acceptable to the countries in the Asia-Pacific region. A regional mechanism of consultation, such as the Pacific Community, could better facilitate this process. Thus, it could be in the interest of the countries in the region, including Japan, that Japan takes the leadership role in forming the Pacific Community. It is no secret, however, that there still are reservations in the ASEAN countries about a Japanese leadership in this context. The way Japan would exert its leadership role would have a very important bearing on the acceptance by others. This implies a lot of consultations in particular with the developing countries in the region (ASEAN) in the formulation of steps and policies regarding the cooperation. In a loosely-structured non-governmental consultative grouping, however, this leadership issue is not a primary concern.

V. PERCEPTIONS FROM ASEAN COUNTRIES

Indonesia¹

The genesis, evolution and recent development of the Pacific Community idea have not been thoroughly examined by the foreign affairs establishment in Indonesia. There is the persistent feeling that the sponsors of the idea, identified to be Japan, the United States and Australia, are aiming at the establishment of a formally structured inter-governmental organization. As such, its implications are seen to be wide-ranging and thus, there is a great deal of reservation towards the idea.

It can be argued, therefore, that more clarification will have to be given by the governments of Japan, the United States and Australia as to what they really have in mind. Thus far, no single government in the Pacific region -- including those three countries -- has formulated its view as to the form and

¹Prepared by Hadi Soesastro.

nature of the entity which constitutes a "Pacific Community". Rather, the outcome should be left to the process in which interested governments are invited to take part. Be that as it may, it is not easy to involve the Indonesian government in such a "muddling through" exercise.

Essentially, the government is quite comfortable with its foreign policy and does not feel the need to search for new motivations, themes or options. In addition, no scenarios so far seem to convince the government of the need to have a Pacific Community in the future. The Indonesian government is neither **against the idea nor in favour of it**. While some degree of reservation towards the idea persists, there is at the same time no compelling reason for rejecting the idea straight away. The government is prepared to keep the options open, but a number of questions will have to be answered satisfactorily before it could generate on its own a greater interest in the idea.

The government, however, welcomes private initiatives, especially to further examine the following presumptions:

- a. ASEAN could be diluted within a larger regional grouping such as the Pacific Community;
- b. There are no clearly identified problem areas which can be solved *only* through a Pacific Community cooperation scheme;
- c. The dominance of Japan and the US in the community is an inherently "disturbing factor".
- d. The proposed membership of the Pacific Community has significant political implications;
- e. There is no guarantee that North-South issues in the region are better dealt with within the Pacific Community.

The general feeling within the foreign affairs community *at large* is that the idea is too vague to begin with, and unless more clear views are expressed by its sponsors, it is not worth a great deal of attention. Nonetheless, the proliferation of documented views on the idea, which recently have become more widely available to the general public, could gradually stimulate a greater interest in the idea within the foreign affairs community.

In view of the prevailing attitudes in Indonesia, the merits of the Pacific Community idea cannot be examined by its technocratic blueprints alone. Rather, the emphasis will have to be placed upon its political dimensions and implications:

- a. from the global perspective: is it consistent with Indonesia's position in the North-South controversy, and can it be accommodated by Indonesia's non-aligned policy?

- b. from the regional perspective: how would it affect ASEAN; could it change Japan's and the US regional posture, and, is it desirable to "institutionalize" (and thus, reinforce) regional interdependence?
- c. from the national perspective: could the body politic accept an idea which already carries the charges of being a "big brother" construct?

These issues are important to deal with. However, they are of no urgency if the Pacific Community to be set up is primarily meant to establish a better mechanism of consultations among the countries in the Pacific in a multi-lateral fashion. As such, it is no substitute for any existing formal arrangement in the conduct of Indonesia's foreign policy. On the contrary, it could provide an additional venue which is worth considering.

Malaysia¹

There is no Malaysian "official" view on the proposed Pacific Community. This does not mean that Malaysia is totally indifferent to the Pacific Community idea. The diversity of opinions expressed by private businessmen, academics, government officials and cabinet ministers amply reflects the differences in their perceptions of the Pacific Community. By and large, it is fairly clear that the scale is tilted somewhat not in favour of the Pacific Community idea. The reservations found in the Malaysian circle seems to stem primarily from the preconceived notion of the Pacific Community which more often than not is equated in the minds of many with the EEC, both in scope and character.

Firstly, it is argued that factors which hold EEC together are absent in the Pacific area which is characterized by extreme political, social, cultural, economic, historical, ethnic, linguistic and religious diversities. And, the Pacific countries are so widely dispersed that even geography cannot be an effective integrating force in the Pacific Basin.

Secondly, it is feared that the North-South axis of the proposed Pacific Community might lead to: (a) domination of the South by the North; and (b) North-South polarization through the powerful backwash effects which would divert resources away from the developing to the developed countries in the Pacific region.

Thirdly, there is an apprehension that the Pacific Community would overshadow ASEAN as a sub-regional group and undermine ASEAN unity and solidarity. It has been pointed out that ASEAN's common bilateral approach towards the developed countries, including those in the Pacific region, has

¹Prepared by Mohamed Ariff.

been quite successful and that the multilateral approach implicit in the Pacific Community idea would weaken ASEAN's bargaining position considerably.

Fourthly, it is argued that beyond ASEAN, Malaysia's interest is really global and not just Pacific. Malaysia has developed important bilateral links with non-Pacific countries and valuable multilateral connections outside the Pacific area. The Pacific Community is seen by some as a threat to these existing links.

Fifthly, it is felt that Malaysian membership in the Pacific Community would imply loosening, if not severance, of its special ties with the Group of 77 and the Organizations of Islamic Conference (OIC) which are of great importance and interest to Malaysia.

Sixthly, fears have been expressed that the formation of the Pacific Community may be construed by the socialist/communist countries as a process of satellization. Malaysia might then be seen by these countries as departing from its non-aligned posture. This fear has been further fueled by Russia's adverse reactions to the Pacific Community idea.

Seventhly, there is an element of uneasiness or "suspicion" regarding the "ulterior" motives of the protagonists of the Pacific Community idea. Some Malaysians seem to think it is the natural resources, especially oil, of Southeast Asia, which has motivated the advanced industrial countries in the region to promote the Pacific Community concept.

Eightly, some Malaysians do wonder if Malaysia would stand to gain or lose economically by being a member of the Pacific Community. The general feeling seems to be that Malaysia's share of the gain, if any, would be negligible by virtue of its small size in relation to most other members. It is, however, clear that while Malaysia is willing to make some economic sacrifices for the sake of ASEAN unity and solidarity, it is not prepared to consider joining the Pacific Community unless it is assured of significant economic gains.

Finally, Malaysians generally seem to be somewhat uneasy about Japan or any developed country playing the role of "Big Brother" or "God Father" in bringing about the Pacific Community. Some Malaysians seem to think that Japan's leadership so far in promoting the Pacific Community concept has been rather counterproductive, while some others are of the view that Japan should first demonstrate its goodwill by liberalizing trade before assuming any "leadership" role. The Australian initiatives, at the request of Japan, in this connection are also viewed unfavourably, since Australia is well-known for its strong protectionist policies and its unwillingness or inability to make compromises on trade issues.

Most of the arguments against the Pacific Community idea are based on the implicit assumption that the Pacific Community will partake of the character of a highly integrated regional entity modelled after the European Community. Most of these arguments against the Pacific Community idea would become non-arguments, once the Pacific Community is seen as no more than a loosely structured forum for consultations on matters of common interest. Seen in this perspective, diversity found within the Pacific region would exert a positive rather than a negative influence. The question of domination and dependence would also become largely irrelevant in such a set-up.

There can also be no valid basis for the fear of dilution of ASEAN unity within the larger group in a situation where the latter is much more loosely structured than the former. On the contrary, ASEAN unity is most likely to be reinforced in the process of a wider regional cooperative effort, as shown by the experience of ACP countries under the Lome Convention. There can also be no question of loosening or severing extra-regional ties and linkages --bilateral or multilateral-- of the member countries, if the Pacific Community is not going to be inward-looking. Besides, growing interdependence in the Pacific Basin is not necessarily inconsistent with the global interests of the member countries.

Similarly, some of the so-called suspicions mentioned above cannot withstand close scrutiny. Thus, for example, the Pacific Community idea cannot be a Japanese ploy for securing Southeast Asian oil resources, for it has been estimated that by the year 2000, the ASEAN countries would have to import from outside the region about 7 million barrels of crude oil daily. Be that as it may, the problem of leadership in promoting the idea can be resolved, with convincing demonstration of genuine good-will by well-meaning countries involved in the promotion of the Pacific Community idea.

It is extremely unlikely that any member would suffer any economic loss as a result of the Pacific cooperative effort. On the contrary, the consultative mechanism would lead to a more intelligent management of the Pacific economy, the benefit of which can be enjoyed by all members. It is important to note in this context that regional cooperation is not a zero-sum game where one country gains at the expense of another.

However, care must be taken to ensure in both words and deeds that the Pacific Community idea is not construed as a ploy that serves political or military ends. In this context, it is important to avoid actions that would provoke hostile reactions from socialist/communist blocs.

The Philippines¹

The perception of a concept as broad and as underfined as economic cooperation in the Pacific area is conditioned by the horizon and context in which such a concept is considered. The more pragmatic, whose focus is on the here and now, ordinarily highlight the difficulties, actual or imagined, in pursuing the concept. The more futuristic, whose horizon is longer, tend to exaggerate either the problems or the prospects of attempts to give life to the idea. The more visionary, whose intellectual attraction to the idea soon leads to the conviction about its inherent goodness, become perplexed over the inability of others to see it as an ideal worth fighting for.

In the Philippines, the distribution of individuals who have given some thought to the concept of economic cooperation in the Pacific is probably akin to a pyramid: a thick base of those who see the problem mainly; a much thinner body made up of those who would say "may be"; a very small minority in the rarefied apex who are already convinced. This is not surprising. Aside from the tendency of most individuals, not only in the Philippines but also in the other ASEAN countries, to conceive of themselves as pragmatic persons, a new concept is usually confronted and stuck up against such a formidable pyramid.

Indeed, the consensus -- if a consensus can be struck among the many circles in Manila -- appears to be that the concept of economic cooperation in the Pacific is one that is seriously in need of strong, acceptable leadership. The more pragmatic are waiting to be convinced that the problems they see can be met and solved. Even the more futuristic can be made to move down the fence and unto the side where probabilities have shifted. The visionaries need no convincing but they are in search of a banner and a leadership around which to rally.

Time and effort can be so wasted in trying to convince those whose major orientation is towards problems that the concept can be talked to death. The danger lies in the failure to recognize that the more pragmatic individuals are not convinced by intellectual arguments. What they look for are results. What they seek is to be shown, by actual opportunities already at hand or in the immediate periphery, that the concept has "something" for them such as a benefit they can exploit to advantage. The more talk there is for a concept, whose time has not yet come, the more suspicion is generated in their midst. Skepticism grows. Charges against the theoretical impracticality of eggheads fly. Derision sets the cause back, sometimes ruinously. For these people, unobtrusiveness is the better part of prudence, a partial hush the better part of strategy.

¹Prepared by Jesus P. Estanislao.

On the other hand, more time and effort have to be spent in building up a case, if any really exists, for the concept. Different scenarios can be considered and evaluated, then placed under alternative paths towards the future. Different problems and prospects can be specified and quantified, and let the conclusions come down hard on either side of the case. It is true that some work has already been done in this regard, but the question remains whether this is being kept up with sufficient tenacity and rigour so that its results see print in scholarly and eventually even in more popular journals. Those of us in economics need no reminder of Keynes's statement on the influence of ideas, especially those born out of serious research. Thus, relative silence called for as an approach to one group is consistent with deep study that appears to be necessary as an approach to another group.

Among the visionaries who are already converts to the cause, a program of action which identifies what can be done by whom and when is imperative. Such a program can be drawn after a general agreement on key principles that underlie the concept. These need to be few, simple and broad. But they should reflect a human and an economic philosophy. They must project a shared conviction about a future that can be shaped. They can inject that vital soul, giving life to what is now only an abstract, somewhat abstruse ideal. They can be woven into a banner that can be seen and read. They guide choices that must be made of leaders who can make the cause their own, upon which they would be willing to stake their prestige and possibly even their position. They categorize institutions and individuals into those who can be immediately enlisted and those whose help may be solicited in later stages. It is apparent, then, that in addition to silence and study, strategy formulation is critical for the concept's sake.

My suspicion is that the pyramid against which the concept of economic cooperation in the Pacific has to face up exists in the Philippines, in the other ASEAN countries, and in other Pacific countries as well. Precisely because of such a probability, the concept -- if it to be given any chance at all -- must now be assigned to a small group who perceive it as their vision of what the future should be worked out to be.

Such a group should be realistic enough to appreciate all the problems which pursuit of the concept would entail. But instead of being mesmerized by such problems -- many of which are real, but also a great number of which are imagined -- they should look upon them as opportunities. It is a chance that can be seized for each of our countries, for the ASEAN as group, and for the set of Pacific nations that can be included. They should be led by lessons derived from their own experience as well as from experiences of other countries, and such lessons in historical perspective point to change as the inevitable con-

text in which countries and regional groupings have to operate. In other words, no one can assume that what can be taken as parameters today can continue to be regarded as such within a generation, or even within only 20 years. And it is to those who seek to influence change or to bring about desired changes that frustrations or rewards are given.

Thus, instead of focusing on problem that can stand in the way of action for the future realization of the concept at hand, the group should be game enough to acknowledge them, but then proceed to try and skirt these by anticipating the changes that can be foreseen and seeking to influence them for the better. Indeed, a first general question that the group should address is: does the concept hold any potential for improving the prospects of the ASEAN countries individually and collectively? If the equally general answer to this is affirmative, then we in the ASEAN should go beyond asking ourselves whether we should be receptive to the concept in any degree. Rather, we should go further and ask in what way we in the ASEAN can get hold of it, formulate it, articulate it, and make sure that it leads to the promises we load on to it. The worst position is to wait for others to do this task, because others will dictate the features presumably to their advantage, and we will have to act as a spoiler by freezing what they come out with, if not totally opposing it.

But within ASEAN, we should have no illusions about what either the public or private sectors can do. The commentary of problems from both can be long and tedious. The pace will be slow. The public sector will be constrained by protocol, by administrative procedures, and by the inherent calculation as to where the power of decision-making is going to be vested. The usual tendency is for such power to be so diluted that waiting times can stretch, as consensus is reached through long, rather frequent, and very demanding official meetings. On the other hand, the private sector will be looking for profit opportunities, for business ventures, and for a conducive investment climate which cannot be delivered whilst the concept is being worked on. The planning horizon of business in most cases is not very long, and it is often incapable of appreciating anything that goes beyond the immediate and the foreseeable i.e. calculable with what passes as acceptable precision. As a result, while private business can be enlightened enough to welcome the concept, it cannot be expected to take the lead for it.

It is therefore necessary to turn to the third sector, the more independent one, whose brief is the common good, not only of individual countries but also of groups of countries that can have shared interests in working together and in inter-acting each other. It is less shackled by responsibilities of office, and it is less answerable to stockholders interested mainly in bottom-line results. Rather, it is freer to engage in the exchange of ideas, of ideals, and of pro-

grams that can emanate from concepts. Working through the personal and institutional links that bind them, they are more open to the many possibilities of mutual give-and-take. Shorn of more prejudices, they are more willing to experiment, and in the case of some even to work dedicatedly for the realization of something to which they have given their conviction.

In sum, the Philippines' view is probably no different from that of others in relation to the concept discussed. As in other countries, we are neither excitedly for nor rapidly against it. It is in view of this wait-and-see attitude and of the desire to give the concept a fair shake that we propose: (1) ASEAN should take the lead; (2) the independent sectors within ASEAN should get hold of the ball and play it.

Singapore¹

In 1960 about half of Singapore's total trade was with Pacific market economies. Today, such trade amounts to about three-fifths of her total trade. Seventy percent of Singapore's commodity exports go to the Pacific region, while the latter accounts for 60% of her imports (see Table 1). Malaysia and Britain were Singapore's major trading partners in 1960. Today her key trading partners are Japan, the United States and Malaysia.

Singapore's economic structure has changed significantly since 1960. In the 1960s, the leading economic sectors were construction, manufacturing and financial and business services. In the seventies, sectors leading economic growth were transport and communication, manufacturing, financial and business services. In the manufacturing sector there has been a switch from labour-intensive industries like textiles, garments, food, paper and wood products, to petroleum refining, electrical machinery, electronics, ships, oil-rigs, metal, engineering, precision equipment and chemicals. These changes in Singapore's economic structure have been reflected in her trade links with the Pacific Community. For example, in the sixties, Singapore's exports to the US were mainly spices, fruits, coffee and crude rubber. Today, as a result of Singapore's economic diversification, there is growing complementarity. Singapore exports to the US much less crude rubber and foodstuffs; domestic exports of refined petroleum products, electrical machinery and appliances have increased rapidly. On the import side, the shares of generators and other industrial machinery in total imports from the US have increased significantly.

A similar pattern is evident in Singapore's trade with Japan. In the sixties, Singapore's key exports to Japan were crude rubber, scrap metal and refined

¹Prepared by Augustine H.H. Tan.

Table 1

SINGAPORE'S TRADE WITH THE PACIFIC ECONOMY, 1960-1978

	Imports						Exports					
	1960		1970		1978		1960		1970		1978	
	\$ m	%	\$ m	%	\$ m	%	\$ m	%	\$ m	%	\$ m	%
Industrial:												
United States	156	3.8	815	10.8	3,772	12.7	242	7.0	527	11.1	3,685	16.0
Canada	14	0.3	41	0.5	144	0.5	49	1.4	57	1.2	215	0.9
Japan	298	7.3	1,458	19.4	5,668	19.1	157	4.5	362	7.6	2,226	9.7
Australia	106	2.6	341	4.5	598	2.0	135	3.9	160	3.4	929	4.0
New Zealand	7	0.2	41	0.5	124	0.4	53	1.5	21	0.4	205	0.9
Developing:												
Korea	n.a.	-	40	0.5	335	1.1	n.a.	-	35	0.7	400	1.7
Taiwan	21	0.5	127	1.7	733	2.5	8	0.2	38	0.8	349	1.5
Hong Kong	90	2.2	189	2.5	731	2.5	60	1.7	194	4.1	1,630	7.1
Philippines	2	-	27	0.4	149	0.5	58	1.7	13	0.3	335	1.5
Thailand	146	3.6	149	2.0	815	2.8	107	3.1	157	3.3	894	3.9
Malaysia	1,075	26.4	1,404	18.6	3,794	12.8	1,003	28.8	1,040	21.9	3,194	13.9
Pacific Market Sub-Total	1,915	47.0	4,632	61.5	16,863	57.0	1,872	53.8	2,604	54.8	14,062	61.2
Rest of World	2,163	53.0	2,902	38.5	12,738	43.0	1,605	46.2	2,152	45.2	8,924	38.8
TOTAL	4,078	100.0	7,534	100.0	29,601	100.0	3,477	100.0	4,756	100.0	22,986	100.0

Notes: (i) Excludes trade with Indonesia

(ii) Export data covers Domestic Exports plus Re-Exports

(iii) n.a. = not available

Source: Ministry of Finance, *Economic Survey of Singapore, 1978* (Singapore, 1979)

petroleum. Imports comprised mainly woven fabrics, steel sheets, machinery, motor-vehicles and watches. Today, in addition to raw material exports, Singapore exports many types of finished products to Japan. The latter in turn is the source of a sizeable proportion of Singapore's imports of consumer, industrial and capital goods.

Table 2

**FOREIGN INVESTMENT IN SINGAPORE MANUFACTURING SECTOR BY
REGION, 1971-1979**
(Gross Fixed Assets, US\$ million)

	1971		1979	
	Value	%	Value	%
North America	506	32	1,844	29
Europe	641	41	2,434	38
Asia	428	27	2,071	33
Total	1,575	100	6,349	100

Source: Economic Development Board *Annual Report*, 1977-1978, 1979-1980

From Table 2 it can be seen that North America and Asia accounted for almost 60 percent of total foreign investments in Singapore's manufacturing sector in 1971. This percentage increased slightly to 62 percent in 1979, while the share of Europe declined to 38 percent. Japanese and American investments together account for half the total foreign investments in Singapore's manufacturing sector in recent years. Indeed, US and Japanese companies have been increasing their investments in Singapore by over 20 percent a year since 1970.

The Asian-Pacific region is presently one of the fastest growing areas in the world. Most observers predict that this trend will continue. If this is so, then it may be expected that, with the expansion of markets, communication and transport networks, intra-regional trade and investment will rise rapidly. It is also anticipated that the Pacific Basin will become an increasingly integrated economic unit.¹

Singapore's trade with the Pacific region during the past two decades has been growing at about 12 percent a year, faster than her trade with other regions.

¹William H. Overholt, "The Rise of the Pacific Basin", *Pacific Community*, Vol. 5, No. 4 (July 1974), p. 525.

As Singapore's economy is highly export-oriented and is not only based on manufacturing but also on trading and services, she would be well-placed to gear in with the economies of the Pacific Community, including non-market economies like China. It is to be expected, therefore, that Singapore would gain from increased contact with, knowledge and awareness of economic events and trends in the Pacific Community.

At the same time, however, Singapore is conscious of ASEAN's views on the Pacific Community idea. Undoubtedly, the economic and political significance of ASEAN to Singapore would be accorded priority consideration in her appraisal of the Pacific Community concept.

Singapore would, of course, also have to weigh the objections of countries like Vietnam and the Soviet Union. The latter has criticized the Pacific Community as a military alliance led by the US to serve reactionary interests, and to create an economic grouping linked to Japanese imperialism.¹ Being a global economy, Singapore also has important economic and political links with the EEC, the Middle East and the Group of 77. Quite clearly, therefore, the nature of the Pacific Community concept would determine Singapore's response.

The likely benefit and costs to Singapore from joining the Pacific Community would, of course, depend upon the form and functions of the organization. If the organization takes the form of a free trade area, a customs union or a common market, there will be benefits to Singapore from trade expansion. Such gains will be offset somewhat by trade diversion. At the same time, retaliation by other blocs such as the EEC will reduce Singapore's extra-regional trade. In such an event, Singapore would have to weigh her costs and benefits carefully. At the present moment, however, most observers do not expect a Pacific Free Trade Area or Customs Union to develop.

An OECD-type association would involve coordination and harmonization of economic policies among member countries. This is not likely to be feasible because of the widely different levels of development in the Pacific Community. Besides, Singapore's experience with ASEAN has shown the difficulties of achieving coordination of policies, even with a small group of five neighbouring countries.

A more loosely structure, informal consultative grouping such as OPTAD seems likely to emerge. As envisaged, OPTAD would have 4 objectives such

¹Y. Bandura, "The Pacific Community: A Brainchild of Imperialist Diplomacy", *International Affairs*, Moscow, June 1980, pp. 63-70.

as: a safety-valve forum for trade and other economic issues, as a stimulus to regional finance and aid, as a consultative body to discuss longer-term Pacific development issues and as a framework for regional economic arrangements. All these four objectives would be helpful to Singapore as she plans her future development.

Less formal organization such as a private standing committee of 15-20 "persons of authority" as recommended by a Japanese Study Group or a Pacific Cooperation Committee comprising influential government, business and academic personalities may also be acceptable to Singapore. One of Singapore's ministers has indicated that an informal forum of Pacific countries, patterned after the Commonwealth would be favoured by Singapore.

Thailand¹

To Thailand, countries in the Pacific are important for security and economic reasons. The country is in good terms with all of the market-oriented countries and regards them as the most important allies. The relationship with the Socialist countries in the Pacific changes with international political developments. At present efforts are made to improve the relationship with China in order to balance the influences of the Soviet Union and Vietnam. While Thailand tries to maintain friendly relationship with the Socialist countries, their political and economic ideologies are widely different and there is little chance in the foreseeable future that Thailand will develop a close relationship with the Socialist countries.

Among the countries with market economy the United States and Japan are perhaps the most important. Thailand continues to expect the US to provide it with a security umbrella, and its defence system is closely tied to the US. ASEAN countries are important to Thailand for "security feeling" and "business dealings". Thai officials feel much more secure when they negotiate on international affairs if they wear an additional hat known as ASEAN. The Thai businessmen make business deal with any other businessmen if there is a mutual benefit in the deal. Because of the aggressiveness and resources of the American and Japanese business concerns, Thai businessmen have closer relationship with the business interests of these two countries than with any other countries'. Business ventures with countries in the Pacific other than Japan and the US have started recently, and have been growing more rapidly. In any case these business interests with third countries are often related to the business of the US and Japan. While the business interest of Thailand is global, it is mainly concentrated on the Pacific.

¹Prepared by Narongchai Akrasanee.

Thai officials and Thai businessmen do not necessarily have common views nor interest on Thailand's economic relationship with the Pacific countries. They regard the developed countries in the Pacific as sources of official loans and aids mostly for development purposes, and play a negligible role in the promotion and negotiations of commercial interests. While the officials will not admit this, it is well-known that they consider it not their prime responsibility to assist the businessmen in profit making. Thus it is usually the case that the businessmen operate very privately, and will only come to the officials for help if it is absolutely necessary. Therefore the officials play the "following" rather than the "leading" role in the promotion of Thai business overseas.

Because of the above reasons the officials and the businessmen in Thailand have different views about cooperation in the Pacific. The businessmen feel that they can co-operate with other businessmen without a formal organization. In fact the nature of the business is such that a wider discussion on any issues relating to their business interest will only be to their disadvantage. They would rather communicate through informal associations. For Thai officials, they prefer to deal with other countries on a bilateral basis since their main interest is to obtain loan and aid. And when loans and aids are multilateral ones, the officials deal directly with the existing multilateral financial agencies. The interests of the businessmen and the officials overlap only when there is an economic dispute, which needs official intervention.

Both officials and the private sector consider economic disputes to be growing in number. The officials feel that there will be a need for them to intervene in the external economic activities more frequently. They are thus planning to set up a "Foreign Trade Fund", using money from a small surcharge on exports. The fund will be used for all external economic activities required of the officials, and for which regular budget is unavailable or inadequate.

Other parties in Thailand interested in the Pacific affairs see the growing economic activities among the countries in the Pacific to be a definite trend. Economic disputes are often due to failure to recognize the significance of these economic activities, and to appreciate the nature of their involvement. Policy decisions made without taking into consideration the growing "economic interdependence" in the Pacific can lead to economic disputes which involve both the officials and the private sector. On the other hand if the nature of the economic interdependence is fully recognized, it can be taken advantage of in the policy making and economic disputes could be prevented.

Because of the interests of the officials and the private sector pointed out above, a proposal to set up a formal organization to promote economic

cooperation in the Pacific is likely to be rejected at this time. Only when they have different perception about economic relationship in the Pacific that such an organization will be considered seriously. But activities which would promote the knowledge of the Pacific economic relations, which involve all parties concerned, should be well received and encouraged. It is for this reason that the proposed Pacific Cooperation Committee, with the specified terms of reference, should be endorsed by the Thai officials and the private sector.

With such an organization, the issues which would be of interest to Thailand are trade, capital flow, energy, fishery, and the implication of the economic modernization of China.

Issues in trade include trade in manufactured goods, foods and other raw materials. Thailand is considered to have reached the stage of "take off" in manufactured exports, with earning from manufactured exports accounting for more than 20 percent of export earnings since 1978. Thus protectionism against these goods in the developed Pacific countries would be disruptive to Thailand. It is realized that protectionism is due to the industrial structure not being consistent with the true comparative advantage of the countries concerned. Thus protectionism especially in manufactured goods is a regional problem which requires regional solutions in terms of structural adjustments. As for exports of food and other raw materials, Thailand would be interested in schemes which would assure their stability in prices and/or earnings. Since the products are exported to several countries in the Pacific, and there are other major exporters in the region, such a scheme would require regional participation.

Capital flows are in the forms of investment, borrowing, and aid. Foreign capital flows into Thailand formed about 12-20 percent of the net fixed capital formation during the last decade. Most of the inflows have been in the form of loans especially the official ones, from both public and private institutions. Thailand expects to have to rely on foreign loans throughout the 1980s. Bilateral approaches are to be used to secure the needed loans. Regional cooperation, to be of interest to Thailand, would have to mean that accessibility to sources of fund would be improved. It is expected that an increase in the sense of community due to regional cooperation would improve the risk rating accorded to Thailand by the financial community. By the same reasoning the opportunity of receiving more aid should also be improved.

The significance of foreign investment to Thailand lies in the process of investment and economic development rather than in the amount of actual investment. What would be of interest to Thailand is the opportunity of having more and better investment ventures with countries in the Pacific. Regional cooperation, by bringing together government officials and the private sectors

of several countries, should open up more opportunity for investment ventures in Thailand. Another area of interest to Thailand is the knowledge of investment trend, so that the country can set investment policies accordingly.

The energy problem ranks among the problems of top priority in Thailand. It is felt that during the next decade energy conservation is the only realistic way of ameliorating energy problems. Regional cooperation should provide an opportunity to share in the research effort on energy conservation.

Fishery of Thailand has developed to the point where fishermen go far and away from the Thai territorial water into other countries' territorial waters in the Pacific and the Indian Ocean. Thailand would be interested in cooperation with other Pacific countries in the fishing ventures.

The modernization of China is likely to have significant impacts on the Pacific Basin countries. But what and how these impacts will be are not at all clear. It seems that the impacts will depend largely on how the US and Japan are assisting China in the modernization process. Regional cooperation in the Pacific will allow the countries concerned to discuss the issues in a broader perspective.

It seems clear that there are enough regional issues for Thailand to be interested in having a regional dialogue on these issues. Such a dialogue should have the features as outlined in the report of the Canberra meeting. For example the dialogue in the form of the Pacific Cooperation Committee will be a broad-based forum for consultations on regional problems, which involves government officials, businessmen and academics. It is not to have military or security objectives. And it is to be an additional forum to the existing bilateral, sub-regional, regional and global fora in which Thailand is involved. Furthermore, the countries are to participate in the forum on an equal footing, and without the EEC-style discriminatory trading arrangements, etc.

VI. PERCEPTIONS FROM OTHER COUNTRIES

Japan¹

The views expressed in this brief note are purely personal. I suppose, however, that they are not much contradictory to the stance taken by the Pacific Basin Cooperation Study Group of which I was the acting chairman. Let me argue here by responding to some important criticisms raised so far against our Report.

¹Prepared by Tsuneco Iida.

Some people say that Japan may well have some hidden motives behind her proposal of the Pacific Basin Cooperation. I must say most emphatically that there is nothing like that at all. Japan is a very unbalanced country: she is quite big in terms of economic power, but she is very small indeed in terms of energy, natural resources and military strength. Therefore, Japan cannot survive unless peace and prosperity are maintained in the world in general and in the neighbouring region in particular. In this connection we are just sincerely proposing that Japan must do everything she can in order to enhance peace and prosperity in this region. We believe that this is a most serious international responsibility Japan is now faced with.

Some people also say that the Pacific Basin Cooperation may dilute the cohesion of ASEAN. I must say very clearly that Japan will never do anything which is detrimental to the solidarity of ASEAN. The reason is quite simple: as stated above Japan's survival is critically dependent upon peace and prosperity in the neighbouring region. Japan has always been benefiting enormously from the fact that ASEAN countries are politically stable and economically prosperous. She has also been very much impressed with the rapid progress attained by the ASEAN as a regional organization. How can Japan imagine diluting ASEAN and its member countries? It is simply against the national interest of Japan's own.

Some people say that the attitude of Japanese government toward the Pacific Basin Cooperation has always been extremely ambiguous: it has no concrete proposals to offer to attract other countries in the region. Because I do not belong to the government I cannot speak on behalf of it. I can, however, talk about a very strong impression of my own since I have been watching the attitude of Japanese government very carefully. I believe that the attitude of Japanese government has been unambiguous and consistent all the time. It set up the Study Group and received its Report, and committed itself to having Canberra Seminar last year. Such a positive attitude has not undergone any change in spite of the sudden death of Mr. Ohira. Both Prime Minister Suzuki and Foreign Minister Ito are regarded to be earnestly inheriting the idea of Mr. Ohira: Special Committee on Pacific Basin Cooperation was newly established towards the end of last year in the Japan Institute of International Affairs, which is a subsidiary organ of the Ministry of Foreign Affairs, for the purpose of following up recent developments.

It seems to me that the point now may well be as follows. Canberra Seminar came to the conclusion that setting up a small forum, Pacific Basin Committee, of private and informal character would be a most promising option as a start. Japanese government appears to be quite happy with this recommendation because it was almost exactly what the Study Group Report

had proposed in its concluding part. Under these circumstances Japanese government has nothing to do but to wait for the emergence of the proposed forum. Once PCC comes into being, Japanese government will then be in a position to say and do something more. Accusing Japanese government of lack of political will at the present stage seems to me to be a bit unfair. Imposing something upon others in haste is the worst thing to do in the contemporary international community.

United States¹

It is my belief that support of the Pacific Community idea is in the national interest of the United States. Most fundamentally, building a Pacific Community will enhance stability and prosperity throughout the region which will benefit the United States and other countries as well.

In addition, other benefits will accrue to the United States that include economic, political and security elements. The United States has significant economic interest in the region through the international trade of goods and services and through direct investments which can be marginally helped by regional cooperation. Regional discussions will help guarantee access to markets and ability to buy products by the United States equivalent to that given Japan which has superior economic power and leverage in the region. In addition, regional discussions can head off disputes concerning direct investment for mutual benefit. Internally, US economic policy dealing with trade and investment is likely to be more efficiency promoting if the expanding markets of the region are kept in mind. The need to encourage R & D and greater investment in general is more likely to be recognized. Furthermore, avoidance of trade restricting measures for both imports and exports is more likely. In other words, being involved in regional cooperation will help the United States meet the Japanese economic challenge.

Along with bilateral ties, regional cooperation will provide the United States with another method for improving and advancing closer political relations with the countries in the region. It can provide a positive focus and framework for its Asian/Pacific policy. Furthermore, it permits very close association with countries in the region and their governments without necessarily close identification with particular political leaders. This is of great significance at times of leadership change. Moreover, regional cooperation could provide an alternative for the United States if the so-called North-South dialogue should take a nasty turn. Some Third World countries may choose to

¹Prepared by Lawrence B. Krause.

maneuver the dialogue into a conflict with extreme confrontations which tend to isolate the United States. An alternative forum in which real issues could be discussed and pragmatism prevail would be valuable at such times.

The United States has explicit security ties with some countries in the region, implicit ties with some others, and parallel interests with still others. Because of the multiplicity of relationships, it will be necessary and desirable to separate military/security issues from regional cooperation. However, regional cooperation will help maintain understanding among government ministers and officials. It will increase contact among business people and citizens in general. Thus, the basic internal political support and willingness to care about the security and well-being of other countries will be advanced.

In the unlikely event of an overt act in the region by a hostile power, the basis for a cooperative response will have been laid.

There are costs to the United States in participating in regional cooperation. There are risks of failure and misunderstanding and risks that regional cooperation will be misused. However, in my view, the effort required is worthwhile and the prospects positive.

Australia¹

No discussion of Australia's interests in developments in the world economy begins without particular attention being paid to developments in the Pacific region. It is now a commonplace that Australia's economic and political future is intimately bound up with the opportunities and challenges presented by developments in Asia and the Pacific.

For Australians, the fact that the Pacific economy now ranks alongside Europe as a major centre in the world economy, and the fact that it continues to enjoy strong growth prospects despite the adjustments over the last decade are basic in the approach to the pursuit of commercial interests, by businesses and in foreign economic policy. This is reflected at the highest political levels, in the attention that is devoted to husbanding new trade and commercial developments, around the established regional relationships with Japan, North America, and Southeast Asia, in Asia and the Pacific, and less positively, in the disillusionment in dealings with the European Economic Community.

Almost 70 percent of Australia's export and import trade is with Pacific Community countries; most of her capital inflow derives from North America

¹Prepared by Peter Drysdale.

or Japan; and her modest but growing foreign investments are concentrated almost entirely in Asia and the Pacific.

Indeed, the major force promoting the idea of closer Pacific economic co-operation among the Australian leadership over the last several years has been the very rapid economic growth of the free market economies in the region, combined with the trend that it has produced towards closer regional economic interdependence and a greater weight for Asian-Pacific countries in world trade. The idea and the vision of a developing Pacific Community, among Australian leaders, is firmly built in these realities.

It is worth stressing that this Australian vision is politically bipartisan. It is an important part of the world view of Prime Minister Fraser, former Foreign Minister Peacock, Foreign Minister Street, and it is a perspective shared by former Prime Minister Whitlam and the present Opposition Leader Hayden. The business leadership is strongly Pacific-oriented in its thinking. In Australia, the Pacific Community idea is no mere intellectual construct: it grows out of a widely held view of Australia's developing place in world affairs.

A central factor in Pacific economic interdependence has been the rise of Japan as a major economic power and the growth of its economic relations with other Western Pacific countries, such as Australia. The growth of Japan, at the same time, has been premised on the comprehensive economic and political relationship with the United States, and for other Western Pacific market economies, the North American connection also remains a vital element in their external economic and political relations. Another factor in recent years has been the upsurge of trade-oriented economic development, first in Northeast Asian, then in Southeast Asian developing countries. Japan, the Western Pacific market economies, and North America are at the heart of a vast new network of Pacific trade and economic relationships which have commanded increasing policy interest over the last few years. In this context, it is quite unremarkable to me that within Australia, there is a very active interest in exploring the need for new regional economic arrangements, both to secure and further to foster closer regional economic interdependence.

For some time now academics have been exploring alternative arrangements for regional economic co-operation in the series of Pacific Trade and Development Conferences that have been held since 1968, and the international business community, through the Pacific Basin Economic Council, has been actively promoting the understanding of and interest in regional interdependence. Australians have been prominent in these activities over the years. But what is different about developments in the last four or five years,

in Australia as elsewhere, is that there has been a significant quickening of political level interest in the exploration of new arrangements for Pacific economic co-operation. In Australia, political level initiatives over the last couple of years included the convening of a major international seminar at the Australian National University in September 1980, sponsored by the Australian Government and including participation of officials, business people and researchers from academic institutions, to discuss what was involved in the idea of a Pacific Community and how it might translate into action.

All this activity really signified that political leaders were coming to agree with the view that economic and political power is shifting towards the Pacific from the Atlantic and that this trend is likely to continue for many years to come. The two underlying factors that have contributed to this growth of interest in Pacific economic co-operation in Australia are worth repeating. First, the growth of regional trade and financial interdependence has produced a complex pattern of shared interests between Australian and other Pacific countries. Hence, there is a feeling that closer consultation and co-operation will be necessary to manage higher levels of interaction, as well as a belief that the common interests of the region in a relatively open international economy and the huge energy adjustment, among other issues, may be served more effectively through new co-operation arrangements. In this context it should be stressed that the development of a broad and, by and large, confident relationship between Australia and Japan over the postwar years is critical to this conception of Australian interests. The closer alignment of Australia alongside Japan in international forums reflects both the pursuit of her own national economic interests in the substantial economic relationship with a major industrial power and also common elements in both countries' approach to protecting global and regional trade and opportunities for economic development.

Second, there is the reality that the Pacific includes a wide range of economies and societies at different stages of economic development with different social and political systems. This requires the development of an identification of interests in the pursuit of common trade and economic growth goals. Hence, there is a hope, indeed an expectation, that Australia and her developing neighbours in Southeast and Northeast Asia and in the South Pacific can work positively at the problems and opportunities in their relationships at a regional level as well as at the bilateral and global level. There are many steps which cannot be taken other than at the regional level. Australia cannot undertake trade liberalization and industrial adjustment sensibly *vis-a-vis* one of her partners in the Pacific, and has little incentive to do much in this respect on a global level. Regional interests are also strong in the area of managing ocean resources, communications systems, and investment policies.

In other words, the principal arguments for some form of Pacific co-operation put forward in Australia are economic. At the same time, the decisions to initiate exploration of the Pacific Community idea, and the processes of co-operation even well short of any permanent structure between governments, have some political character. This fact conditions the nature and the timing of actions. There is naturally a strong consciousness that good economic relations have the additional benefit of strengthening political relations. More and more, political relations revolve around economic relations. Having said that, it is important to be very clear that the Pacific Community discussion has specifically excluded military - strategic questions which cannot sensibly be handled in a comprehensive framework because of the very different circumstances and interests that prevail in different parts of the region. Certainly the Australian political leadership, in its conception of Australia's interests in Pacific co-operation arrangements, sees economic - political interests as the prime objective and has not come to the idea at all via consideration of national military - security interests.

It was within this broad economic and political context that Prime Minister Fraser of Australia and the late Prime Minister Ohira of Japan agreed to convene the seminar at the Australian National University last September to survey interest in the Pacific Community idea and to discuss what steps, if any, might be taken towards its development. It is appropriate that the Australian and Japanese leaders took the initiative in this matter since their two countries, after the United States and Japan, have had one of the largest bilateral economic relationships in the region, based on the strategic raw materials trade. Australia is a strategic anchor-sheet in Japan's raw materials procurement, alongside the oil producers and North America.

It is this that underlies the considerable regional and international significance of the Australia-Japan relationship. As a result of developments in the Australia-Japan trade, Australia has emerged as the world's largest producer of bauxite, the second largest producer (after the Soviet Union) of iron ore, and the third largest producer of nickel. Although Australia's production of coal is a relatively small part of world production, Australia is the world's largest coal exporter. In addition, Australia continues to be an important supplier of products which had earlier dominated mineral exports (copper, lead, zinc, gold and mineral sands) and is emerging as a major factor in the steaming coal and uranium markets.

Let me now recapitulate Australia's three principal interests in closer Pacific economic co-operation before turning to review the results of the discussion at the Australian National University Seminar, an update on which may be of some interest here.

First, Pacific economic co-operation arrangements offer Australia an appropriate framework for securing her interests in an open international trading and economic environment in the decades towards the year 2000. Second, they provide an important base for those in Australia who seek trade and economic liberalization, aimed at expanding trade access and promoting efficient energy, industrial and trade adjustment and growth. Third, they offer the prospect for the development of a stronger common Pacific position on trade and development interests: at the very least, the idea of a Pacific Community is an effective means for promoting vigorous interest in the growth, trade and investment potential of the region as a whole, as well as of the individual countries within it, such as Australia.

How might closer Pacific economic co-operation arrangements evolve over the years ahead? The discussions flowing from the Australian National University Seminar still provide the best guide in trying to answer this final question. The seminar, under the chairmanship of Sir John Crawford, Chancellor of the Australian National University and an important policy figure, focussed on four questions:

- What are the forces promoting the Pacific Community concept?
- What are the issues for substantial co-operation?
- What countries are interested to participate?
- What next steps should be taken?

Participants included specialists in Asian-Pacific affairs, senior business executives, and senior government officials acting in unofficial capacities. Participants were drawn from Japan, Australia, the United States, Canada, ASEAN countries, the Republic of Korea, New Zealand, and the South Pacific Forum. They included former Foreign Minister Okita of Japan, Deputy Prime Minister Thanat Khoman of Thailand, Deputy Secretary of State, Holbrooke of the United States, and Mr. Delworth of the Canadian Department of External Affairs.

The major recommendations of the seminar were:

- To establish a Pacific Co-operation Committee (PCC) composed of representatives of government, serving in unofficial capacities, senior executives from the private sector, and academic specialists;
- To establish a limited number of task forces to examine and report on high priority problems of a regional nature. Task Force membership would involve specialists from all sectors;
- To approach the question of membership of the Pacific Community in an open spirit. Membership of the PCC should be drawn from the market economies of North America and the Western Pacific. But participation in each task force should be open to countries of the wider Pacific region. That

is, involvement should not be limited to countries initially in the PCC. Participation in task forces should include those who share the objective of improved co-operation, communication, and consultation within the Pacific Basin in specific fields. China, the Latin American countries, and the Soviet Union were all mentioned in this context;

To accord priority in task force activities to trade, energy, marine resource, and communications questions.

Note that these recommendations were in no sense simply Australian recommendations, but were the recommendations of a widely representative and appropriately informed group of experts from throughout the Asian-Pacific region.

The Canberra Seminar Report was forwarded to the governments concerned for their review and consideration of the recommendation to establish a PCC.

The Canberra Seminar rejected as inappropriate any attempt to form an economic community like the EEC. The particular circumstances of the Pacific region require the evolution of a new model of co-operation not existing elsewhere in the world. There was seen to be a need for step-by-step advance.

There was seen to be a need to ensure that existing bilateral, regional, and global relationships are not undermined, with special attention being given to satisfying the concerns of developing countries, including the ASEAN group and the South Pacific Forum countries.

There was seen to be a need for building on existing private arrangements (such as the Pacific Basin Economic Council and the Pacific Trade and Development Conferences), incorporating an inter-governmental link but not moving prematurely to formal intergovernmental structures, beyond those which already flourish.

In the event, the recommendations of the Australian National University Seminar are attracting a wide measure of support. The Pacific Basin Economic Council has noted that the proposal to establish a Pacific Co-operation Committee would present a major opportunity for international business to assist in the positive evaluation of economic and political relations in the Pacific Basin. The Governments of Japan, Australia, Canada, New Zealand, and the United States have endorsed the thrust of the seminar's recommendations, subject to their positive consideration by ASEAN and South Pacific Forum countries. The proposals are currently under scrutiny in those countries, but it

is clear that there will be opportunities, over the next several months, for discussions among the countries represented at the seminar on the subject of whether and how to proceed with implementation of the Canberra seminar recommendations, or some sensible variation of them. Steps have already been taken in a number of countries to establish the necessary national machinery to participate in the PCC.

But what would be the practical implications of progress towards the establishment of these new Pacific co-operation arrangements? First, they would provide a new and influential forum in the Pacific for addressing some of the important problems facing the world economy. This forum would provide support for the maintenance of an open international economy and help to constrain protectionist tendencies. This forum would support the trade growth and development goals which are important priorities for Pacific countries. It would buttress national efforts in the management of required structural adjustments in manufacturing industry, energy trade, and other fields within the Pacific and world economy.

Through the work of the task forces in priority areas, it would provide new opportunities for countries such as China, other socialist countries, and Latin American countries, to work with Western Pacific and North American countries at developing closer economic co-operation within the Pacific.

This may all sound overly optimistic, but if it does, it is partly because pessimism about the intermediate term world economic outlook derives from an over-concentration on the problems of established centres of world economic power in the Atlantic, rather than on the opportunities that are being provided by the new and powerful centre of world economic growth that has emerged in the Pacific.

In any case, it is on these opportunities that Australia's foreign economic policy, in its bilateral, global and regional dimensions, is very heavily, and in my view, sensibly focussed.

Indonesia Goes to the Polls

Both before and after the general election the mass media had been flooded with information and peoples' opinions about the "festival of democracy" which has just passed. Everyone was stunned by the passion shown by the masses while the campaigning was going on. The meetings and mass parades held by the three contestants received an enthusiastic reception from all strata of society. Apart from the tension caused by a small group of disruptors in Jakarta, the remainder of the 45-day campaign was a true reflection of the expression coined by President Soeharto well before it: the 1982 election will be a "festival of democracy" for the Indonesian people.

The following is a series of quotations of opinions appearing in the Indonesian mass media - through news reports, articles or echoed in editorials - concerning the campaign, the voting and its results, as well as the role of the Armed Forces (ABRI) in making a success of the 1982 election.

1. THE CAMPAIGN: FOR AND AGAINST THE MASS PARADES, THE LENGTH AND THEME OF THE CAMPAIGN

The incident caused by a small group of *disruptors* when the campaigning was held in Jakarta has given rise to varying opinions as to whether to involve the masses in following election campaigns. Because whenever there occurs

an incident it is always connected with the masses.

In its editorial of March 31, *Kompas* suggested that mass movement has not manifested itself as a feature of political life since 1966. Political life is no longer regulated through mass movement so that the way the masses were organized during the campaign was felt to be quite starting. Still, a campaign is not right if not included is an open forum. However, 'open forum' does not have to imply gigantic mass meetings. The April 16 *Kompas* editorial, in this connection, gave the example of the campaign carried out in various parts of Riau, where question and answer sessions in the form of a direct dialogue with the candidate and the people in small groups were held.

Prof. Padmo Wahjono, Deputy Chairman of the BP-7 (Pancasila Dissemination and Inculcation Body) is of the opinion that campaigning will be more efficient if conducted via small groups such as that of neighbourhood associations (RT/RW), factories or other areas of homogenous groupings and by explaining the party programme to them. In this way incidents can be avoided or, if they occur, they can be more easily traced (*Kompas*, 2 April).

Opinions in favour of abolishing mass campaigning such as this are often voiced, however there has been up to now no meaningful discussion of the alternatives offered. There has only been suggested a number of possibilities: campaigning via TV, pamphletting, brochures, visiting houses and meeting halls.

Alternatively, those opposed to the abolition of mass parades during the campaign

period are worried that this could only reduce basic human rights and obstruct the democratic process. On April 2 *Kompas* featured the view of Arbi Sanit, a lecturer on the Indonesian political system at the University of Indonesia, who equated the banning of mass campaigning with removing the opportunity of society to participate in the political process. Further, he stressed that the excessive spirit of the contestants' supporters in the campaign is the result of the non-existence of mass movements under the New Order. In the meantime it must be taken into consideration that, because of the non-functioning of mass organizations in the political system, the masses will become directly involved in the political parties and Golkar. This is dangerous since neither the parties nor Golkar are capable of organizing them.

The campaign period of 45 days is felt by many to be too long. General Sudomo, Director of the Command for the Restoration of Security and Order (Pangkopkamtib), suggested that in future elections three weeks is sufficient for the campaigning whereas J. Naro, chairman of PPP (United Development Party - a fusion of the Islamic parties), said that two weeks is enough. On this point, *Suara Karya* in its May 18 editorial, noted that the long, 45-day campaign caused the contestants and society to become saturated. The result is a tendency to search for campaign themes and forms that differ from what has gone before and this often causes excessive behaviour and attitudes. Following this view Dr. J.E. Sahe-tapy, Law Faculty Dean at the Surabaya Airlangga University, is of the opinion that campaigning should be held for no more than 30 days so that the people do not become "campaign targets" for too long and the campaigners do not run out of material (*Kompas*, 19 April). Meanwhile, the April 15 editorial of *Sinar Harapan* noted that after the campaign had continued for two weeks it appeared that the contestants were already short of arguments. Consequently *Sinar Harapan* suggested that campaigning be held for 2 or 3 weeks in future elections.

About the themes of the campaign we can observe that the enthusiasm of the people to participate in the festival of democracy (in the

general election) was stimulated by 'primordial' tendencies in the form of religious spirit - especially that of Islam. About this, the 13 March editorial in *Jurnal EKUIN* stressed that if religious affinities were used for political problems, then what would arise would not be an attitude of "spirituality" and "passivity", but narrow fanaticism. For a pluralistic nation such as Indonesia, such an attitude carries serious risks for unity.

In his article in *Kompas* 13 April, entitled "Religion and Pancasila in the Campaign", Abugorda suggested that it is ideal that religious and ideological questions not be involved in the campaign. However, anxiety in fact arose not because of the campaign themes themselves but the way in which they were used. In the campaign, religious questions and the Pancasila were thrown about in the form of slogans - very agitative. What they were directed at was not a national consciousness but national sensitivities, blind fanaticism and narrow loyalties. Religious questions and the Pancasila should be advanced in the form of a programme. Society would be told what will be done by each contestant for the development of religious life and the spreading of Pancasila values in a country neither secular nor religious.

2. THE VOTING: ITS IMPLEMENTATION AND THE RESULTS

Throughout Indonesia the May 4 poll took place correctly: it was free, secret and without pressure. Such a relieving outcome was received with gratitude and pride by newspaper editorials in the days after the election (5, 6 May). Apart from this they all also expressed their thanks that the total number who used their right to vote was large - 91.47 percent. In the 1977 election it was 90.57 percent.

The composition of the votes for each contestant was: PPP, 27.90 percent; Golkar, 64.19 percent; PDI, 7.91 percent. The 6 May *Kompas* editorial greeted the victory of Golkar by stating that its victory was obtained legitimately, therefore the development strategy could be continued. Furthermore, added *Kompas*, as

has been proved in other developing countries continuity of development is very much needed. Its judgement: we are faced at the same time by the problem of existence itself. The main problems, involving life-supporting infrastructures and guarantees of existence, must be solved without interruption. We are racing against the increase in population amongst various other problems. To overcome them continuity gives the optimal guarantee.

The Council of Islamic Scholars (MUI) evaluated the election results, as publicised by the General Election Organization (LPU), as in accordance with the stipulations of the existing laws. The council also expressed its thanks that the 1982 election, as the means to maintaining democracy in Indonesia, had proceeded smoothly, orderly and with safety (*Suara Karya*, 13 May).

Meanwhile the PDI, which obtained a vote of less than 10 percent, accepted its defeat and "was a good loser". We can see this from the political statement issued as a result of the consultation of the PDI central committee with the Regional Committee delegates. In the statement it was stressed that the PDI could accept the election result, being conscious that there still exist operational and administrative shortcomings in its implementation (*Sinar Harapan*, 13 May).

In evaluating the implementation of the 1982 election, the statement of the Central Council of the National Committee of Indonesian Youth (KNPI) regretted that the three contestants did not give a picture of an orientation to the development programme. However, the KNPI was thankful, and expressed its gratitude to all, that the general election took place safely, orderly, smoothly, successfully and validly. Because of that the KNPI invited all sides to accept and respect all results in the 1982 election.

3. THE ROLE OF ABRI IN THE 1982 ELECTION: NEUTRAL AND RESOLUTE

The good posture of ABRI, which didn't side with one of the contestants, was one of the factors determining the smoothness and orderliness of the 1982 election. Such was the appraisal of PPP General Vice-chairman, M. Nuddin Lubis and the PDI Secretary-General, Sabam Sirait in an evaluation of the main features in the election's execution (*Kompas*, 7 May). Even though ABRI did not side with them, Golkar still emerged as the victor. On this subject the May 7, *Sinar Harapan* editorial noted that this had made void the prediction of several observers. Because it proved that the posture of ABRI, which was not to take sides, did not at all influence the balance between the social-political forces. The results of development, continued *Sinar Harapan*, had strengthened the position of Golkar.

Book Reviews

The Question of International Politics and Strategy

Strategy and International Relations: Indonesia in Asia-Pacific Region

(in Indonesian, *Strategi dan Hubungan Internasional - Indonesia di Kawasan Asia-Pasifik*), edited by Hadi Soesastro and A.R. Sutopo, Jakarta, CSIS, 1981, xxiv + 640 pp.

Since it was founded in 1971 the Centre for Strategic and International Studies (CSIS), Jakarta, has been an Indonesian institution with an organized and planned programme for serving the growing popular interest in understanding political, economic and security developments on the international level as well as the challenges our people and country are faced with. The role which should be played by other higher education and research institutes too, up to now only the CSIS has apparently been able to carry out, with the exception of Lemhannas (National Defence Institute).

In commemorating the 10 years of CSIS as of December 1981 a collection of writings of the CSIS staff, both junior and senior, has been gathered into this interesting volume. Chapter One covers thinking on strategic questions; Chapter Two discusses power configurations in the Asia-Pacific; Chapter Three reviews the problems for Southeast Asia whereas

Chapter Four focusses on the position of Indonesia in international relations. An Introduction by Daoed Joesoef (currently the Minister for Education and Culture) tackles a number of strategic, political, cultural and psychological problems, both theoretical and practical, which directly or indirectly influence Indonesia's survival.

The writings collected in this book cover a time period of 10 years. For this reason, as recognized in the foreword, several questions are felt to be somewhat out of date when looked at from the present. Despite this the basic pattern and the analytical framework used is still felt to have many benefits - especially when the time of writing for the works included is taken into account. The inclusion of the year that each composition was written helps the reader to capture the "spirit of the time" for the problem discussed. At the same time he can also evaluate the writer's skill in proving his case from the conclusion drawn at the end of the writing.

The strategic considerations developed in the Introduction are in many ways the most interesting of the writings. The basic concept put forward by Daoed Joesoef, in turn influenced by the French strategist General Andre Beaufre, is "metastrategy". In other words, strategic considerations in the broad sense include politics, ideology, culture and military issues. This then resembles the thinking of IPOLEKSOSBUDMIL (ideology, politics, economy, socio-cultural and military affairs) that we used to often read in the writings of SESKOAD (Army Staff and Command College) and Lemhannas (National Defence Institute). In the nuclear age, where everything is

"comprehensively" dealt with, defence and security must also be all-encompassing. Not unimportant is strengthening of the state ideology since the growth of the mass media could paralyse the sense of nationhood.

After analyzing nuclear issues, the mass media and the economy in modern strategies, in the section on "Construction" Daoed Joesoef gives the reminder: "obstacles to the existence of a nation are not only found in times of war but also in times of peace. Indeed, they are there at all times since the dividing line between war and peace no longer exists". This is possibly quite true. The problem is how to distinguish a valid and well-founded anti-government movement from one which is invalid and baseless. Should every complaint and opposition faced by a government be totally and absolutely destroyed without looking for the root of the problem which was perhaps engendered by the growth of the nation, or even by the characteristics and form of the government itself?

Fortunately an alternative has been proposed by Daoed Joesoef in his 1973 writing. While advocating "metastrategic" thinking he points to the part played by the "generation of 66" who, at the beginning of 1966 "could no longer tolerate pretensions and all forms of glorification of national values and institutions". The youth according to Daoed Joesoef required systematic reasoning before they could be expected to accept the national leadership, whether in terms of its values, institutions or personalities. Because, he says:

"without their understanding and consent all the ideas relating to what should be done in the future would be impossible to completely put into effect" (pp. 17 and 18).

This also seems to be the challenge he has faced, particularly of late, as the Minister of Education and Culture.

Other sections of this collection of writings, particularly those relating to developments in Southeast Asia and the Asia-Pacific region, will benefit those interested in international problems - whether specialists or laymen. For

the specialists the division according to regional categories or groups of countries facilitates the more in depth study of problems and the search for themes. An overall analysis of country or region is beneficial in laying the basis for more detailed studies of particular issues. This is in keeping with current considerations of the interconnections between 'national' and 'international' issues. Relating to this, the contribution of Pande Radja Silalahi (1980), about the continued survival of the LDP government in Japan, is particularly interesting. This analysis of the overall percentage of votes and seats in the Japanese Lower House, which closely relates to personal and factional competition in the LDP, can be made into a model for the analysis of political developments in Golkar approaching and after the general election. For the layman, this collection facilitates a better-based understanding of the international developments one reads almost every day in headlines; at least international issues as reported can be studied within the political and economic historical framework presented in the various writings in the collection.

Strategi dan Hubungan Internasional (Strategy and International Relations) answers the requirement of many organizations for still-infrequent literature on international politics, economics and security. When compared to a textbook this collection definitely has several weaknesses: it has multiple foci and is dispersed according to the various interests of the prominent senior researchers such as Jusuf Wanandi (Asia-Pacific Security specialist), Hadi Soesastro (energy and economics), Jusuf Panglaykim (multinational corporations, business), Kirdi Dipoyudo (West Asia and the Middle East). However, this weakness is at the same time a strength. The reader is left free to read one or several of the compositions according to his needs - without having to read at length over-detailed analyses, such as occurs when digesting textbooks.

The most pleasing aspect is the quality of the political, economic and security analyses produced by the younger staff such as Endi Rukmo, Ronald Nangoi, Budi Satari, Alfian Muthallib and their peers. This is proof, at

least, that the CSIS is not only thinking about and creating the analyses but is also producing a generation of actors with international perspectives. With regard to its practicality the CSIS has once again proven its success, when balanced against other institutions. Unfortunately the lead of the CSIS has not been copied by our universities or other research institutes, whether public or private. Because, to adapt Clemenceau's expression, questions of international relations and strategy are matters too important to be handed over to one, single institution.

Juwono Sudarsono/*Optimis*, No. 25.

Those Who are the Best-Known in Indonesia?

Who's Who in Indonesia (in Indonesian, *Apa & Siapa Sejumlah Orang Indonesia 1981-1982*), compiled by Editorial Staff, *Tempo*, Jakarta, Grafiti Pers, 1981. xii + 905 pp.

This book is about "Who's who" in Indonesia. It is the result of the compilation efforts of the editorial staff of *Tempo*, one of the most popular magazines in Indonesia.

Although this is not the first book on this matter (meaning contents relating to Indonesians), its arrival should be well-received. There have certainly been many kinds of this type of book published but they have inevitably household "ornaments".

This *Tempo* version of *Who's who* will apparently end all that - certainly not a book for display. It should be read before being put on

display. This is made possible not only because those presented are "our own" people but like that of *Tempo* the language is pleasant to read.

Presented in a volume of about 1,000 pages and telling "the story" of about 600 of the most well-known people in Indonesia. This book, according to its compilers, was produced because of a difficulty often experienced by *Tempo* journalists in writing their reports which are always in a story format. The difficulty is in describing public figures who are often the centre of attention. "Important events in Indonesia generally involved one or more public figures. Yet when we see him on television on figure is usually described incompletely. We know his name, but what is his age? We know his job, but what happened in his life to make him the centre of attention and often admired?"

It was from this point of departure that there then arose the idea of compiling a small library containing profiles of names often mentioned in the mass media. Gradually, this library became no longer "small" but gigantic (knowing how many public figures there are in this country) and it was subsequently developed and offered to the public in the format of a book.

The criteria for selecting those Indonesians suitable for inclusion in the book, according to its compilers, are "firstly, names of people known nationally; secondly, the names of those who, despite not being very widely known, are very important in their professional circle or in their community; thirdly: those considered important in modern Indonesian history; and finally, the president, vice-president and high state officials".

It is from these four criteria that there are collected about 600 of the most popular Indonesians, their personalities, positions and work - as well as their behaviour which ought to be known by the people of their own country. For example, there is Thomas Americo, Kusni Kasdut, Oma Irama, Gunawan Mohamad, Iskak, Isnaeni, Ibnu Sutowo, Adam Malik and many more. From the names that appear it is obvious, that the choice of those

who are amongst the "top" is not always due to their good deeds but may also because of their "nuisance value" - Kusni Kasdut, for instance. Those included in this book are both those who are well-known because of their position or because of their behaviour.

The question certainly needs to be asked: are the most well-known people in Indonesia only these 600? Are there no others? Aren't there more at least as equally prominent as those included in the book? Note that amongst the group of the scholars there is not included Prof. T. Anas Ithromi nor Prof. W. Bachtiar. However, they are no less prominent than Prof. Koentjaraningrat or Prof. Miriam Budiardjo.

The same is also true for literary circles. People will naturally ask who is the more prominent of Arswendo Atmowiloto or Abdul Hadi W.M., when compared to Jim Sepangkat, which means that the last can appear in this book? In the circle of popular novelists also, what is the difference between Mira W. and Marga T. or Eddy O. Iskandar, so that the last two appear in the book. And there are many others that can be questioned. For the above "four criteria" described by the compilers do not really fit. There is something which needs to be added to the four categories. Namely: that besides being well-known whether nationally or in their own social circles - the public figures often be discussed in the mass media. It is important that it is explained that, as we can see above, the total number of those included was able to be somewhat narrowed. Thus, the selection of the figures did not need to be carried out by poll (pag. 9) which would lead the reader to get the impression that a figure is not included because of a single factor: failure in the poll.

One gets several impressions from reading this book. First, reading this book is like reading "Pokok & Tokoh" (figures), the column in Tempo which has most devotees. It can be said that the book is a collection (although not entirely) of stories from this column - and the careful reader will know that a large part of the stories in this book we have already read in the magazine. What is added is only the person's address and office - although occas-

ionally not completely and there are even those that are already out of date.

The problem of being out of date is certainly a big risk for a book of this type. Compiled over a period of two years, it is not impossible that the prepared data is no longer relevant.

I am sure that the compilers of this book have done all they could in the creation of this book. Hard work has certainly been done to obtain the best possible result. But reading the book one gets a feeling (my second impression) of one-sidedness in the presentation of the data. Whereas one person may be discussed for three pages, another will be talked about for no more than half a page. They sometimes place more importance on the description of Lius Pongoh than that of Deliar Noor or Mahbub Djunaidi. Yet there is something even more amusing: of a figure, there is mentioned the name of his wife and children, when he was married, his place of birth, his home address - but nothing else. And yet there have been mistakes made in their addresses.

There is one other matter which, upon finishing reading the book, I don't understand. On the outside cover is the title *Who's Who in Indonesia, 1981-1982*, but examining its contents, of the figures that appear there are quite few from "old" circles such as: Adinegoro, Tan Malaka, Yamin, Cornel Simanjuntak, and others. This is clearly inconsistent with the book's title which includes the figure 1981-1982. I am sure that the meaning of the use of this year is to make clear that there will later appear a book of similar style for 1983-1984. But a collection of volumes like this will later, certainly not benefit the compilers (nor the publishers) themselves.

Disregarding the several points made above, this book should still be important for all of us. At least we can use the various prepared materials, as reference material for instance.

Andy Zochtom/*Optimis*, No. 22.

The Study of Education in Indonesia

Assessment of Indonesian Education: A Guide in Planning, by C.E. Beeby, New Zealand Council for Educational Research, Wellington, 1979, xiv + 349 pp.

The writer of this book is of New Zealand nationality. He is someone heavily involved in the problems of education in the Asia-Pacific region - and even in the Carribean. Various posts have been held by him, including Director of the New Zealand Council for Educational Research (NZCER), UNESCO's Assistant Director General for Education and then Executive Council chairman of that international body's Executive Council, the New Zealand Ambassador to France, a Ford Foundation consultant in Jakarta and a consultant to the Department of Education and Culture in Jakarta.

During the four years he served in Jakarta, the clear-sighted Beeby did his utmost in providing suggestions for the Education Department, most particularly in problems of Education Planning. On finishing his duties he wrote this book.

This book, writes Beeby (p. 16), has been mainly written for Indonesians - especially those active in the area of education, both in Jakarta and at the provincial level in other areas. Its objective is to make a contribution towards solving education problems in Indonesia. Beeby hopes this book will become reference guide for education planners after he returns to his country. This is a most sympathetic statement from one of the figures of education in a neighbouring Pacific country.

Beeby, in his study, used data prepared by the National Education Evaluation Project (PPNP) in Jakarta. Consequently, if there are weaknesses in the explanation of the data he obtained, this is also due to the incompleteness

of the PPNP data. Certainly, the completeness of both qualitative and quantitative data for education in Indonesia gets some very close attention in this book, especially that for quantitative data. For data, as the source of information, is an absolute necessity for outlining an education policy.

In one suggestion (p. 295), Beeby stresses that there is still a necessity for a means of gathering data. He notes that the collection of data in an intensive and directed fashion since 1970 is an encouraging achievement. Despite this, suggests Beeby, the collection of data should be made into a routine activity in the various agencies of the Education Department, especially those connected with planning problems such as the Jakarta BP3K (Parents and Teachers Associations).

This book concentrates more on the problems of primary and secondary education. Beeby doesn't pretend to know a great deal - but he only wants to write about what he definitely knows and what he has been directly involved in. It may be the aim of writers to write about education in Indonesia up to the higher education level, but that "I didn't take part in surveys and discussions concerning higher education" is one of his reasons. Nevertheless, he also analyses higher education as far as it is connected to the question of primary and secondary education.

Specifically this book, which focuses on Indonesian education in a constructive-critical way, consists of three sections and contains 12 chapters. The first section (2 chapters) talks more about the Republic of Indonesia and its education system. There is also an explanation of various terms which is very useful for an understanding of the analysis that follows. In the second section (eight chapters) the writer describes the results of the PPNP project in 1970-1972 in preparing primary and secondary education in Indonesia. Also treated is state education up to 1977 - including the curriculums drawn up and put into effect within that period.

The third section (four chapters) is used by the writer to give an analysis of the descriptions

made in the previous chapters. The viewpoint of the writer as an educational specialist colours this section more. Several problems touching on education get Beeby's attention. Namely, the question of the administrative structure in primary and secondary education, the aim of education oriented towards Pancasila through the simplification of its instructional and institutional - curricular directions the schooling structure, the supervision mechanism and the possibility of improvements in the future.

For the reader who already has an adequate understanding of the Indonesian situation, especially those possessing the earlier reference, it should not be difficult to follow the contents of this book. In the first and second sections for instance, the data - which is often announced in the media and on various occasions - is much talked about here. However, it would be difficult to follow the course of Beeby's suggestions in the final section wherever an understanding of the present situation of education in Indonesia has not been previously reached. In the section on qualitative change (12) - which is of a different language from the term "education quality" - Beeby puts forward five formulations to be made a guide to the study of the completion of the education system in Indonesia and its implications. This is clearly the climax to the contents of an extremely constructive book.

Dedi Supriadi/*Suara Karya*, 20 April 1982.

The Sultan, the "Goalkeeper" of Indonesian Independence

A Throne for the People: Glimpses of the Life of Sultan Hamengku Buwono IX (in Indonesia, *Tahta Untuk Rakyat, Celah-celah Kehidupan Sultan Hamengku Buwono IX*),

edited by Atmakusumah, Jakarta, Gramedia, xxiv + 384 pp.

Reading this book we feel we face two different worlds. The self-portrait of "Sri Sultan Hamengku Buwono IX" as the occupant of the throne of the Kingdom of Ngayogyakarta Hadiningrat radiates images of feudalism laden with mystery. Whereas his lifestyle and existence as "Bung" (brother) or "Father Sultan" conveys a complete description of a democratic personality. It is this that apparently "confuses" Dr. T.B. Simatupang. This former Commander in Chief of the Armed Forces asks:

"How can it be that in a republic born of a people's revolution and which flew the banner of anti-feudalism a Sultan, who symbolizes centuries of royal tradition, can play such an important role and occupy numerous positions and offices, including the vice-presidency?" (pp. 142-143).

As such the book we are discussing, although it is admitted by the Sultan himself not to be an autobiography, certainly provides interesting material. The Sultan at the reception for his seventieth birthday said, "I know too much about many things". It is also described how important was the role actually played by the Sultan at the beginning of independence. Mohammad Roem even wonders "What would have happened to the Republic if there was no Hamengku Buwono IX"? (p. 133).

The Sultan was born on Saturday April 12, 1912 and given the name Dorodjatun. Born from the womb of the Sultan's first wife, R.A. Kustilah, Dorodjatun did apparently not much taste the benefits of palace life. At the age of four he was separated from his family to board with a Dutch family, Mulder. This separation was accompanied by the instructions of his father, Prince Puruboyo, that Dorodjatun be educated as the child of an ordinary family. He intended that his child absorb the values of living simply and full of discipline such as is usual in the life of the Dutch (p. 21-22). Such a life never includes palace servants or aides-de-cour. Here Dorodjatun was also given the sim-

ple name of Henkie (little Henk). The name Henkie continued to be attached to him when at school and as a university student. "Even now by close friends who know me well" says the Sultan (p. 26).

Thus began the long journey of Henkie. From the Mulders he moved to board with the Cock family. From there he moved again to the house of the Voskuil family in Semarang. Not long in Semarang, Henkie moved to Bandung where he stayed with the De Boer family. All this took place still with the same instructions from his father: simplicity and discipline. From his behaviour not many of his friends knew that he was the son of a king, much less a future king, to whom one must kneel on the floor if one wanted to address him in the palace.

Such was what happened to Henkie. He always lived far from his family. In March 1930, together with his older brother Prince Tinggarto (later known as Prince Prabu-ningrat), Henkie left for Holland. There he entered the college in Haarlem, living with the family of Ir. W.C.G.H. Mourik Broekman. The simplicity and discipline of the Dutch he mixed with had clearly developed the particular character of Henkie. As a Javanese, especially as the occupant of the throne of the centre of Javanese culture, he appeared amidst all the greatness of the East. As someone who lived for years in a Western environment he absorbed the essence of Western rationalism. And this was stressed in his well-known inauguration speech:

"Although I have tasted true Western education I was originally, and still am, a Javanese. Therefore while it does not obstruct progress custom will continue to hold the principle place in a palace rich in tradition" (p. 53).

It was this personal background which was to become the basis of his attitude to the Proclamation of Independence of 17 August 1945. Only two days after the Proclamation the Sultan, together with Paku Alam congratulated the proclaimators Soekarno and Hatta (p. 138). Two weeks later the telegram of

congratulations was followed by a Message from His Highness the Sultan of Yogyakarta stating that the Kingdom of Ngayogyakarta Hadiningrat was a special area of the Republic of Indonesia (p. 301). As stated by George McT. Kahin, the principle error made by the Dutch in their attempt to overpower the Republic was a fundamental miscalculation of the attitude of Sultan Hamengku Buwono IX of Yogyakarta (p. 172).

In the time of the revolution the Sultan, calm and full of charisma, often appeared in person at critical moments. Mohammad Natsir, former Prime Minister and Chairman of Masyumi, compares the Sultan to a "goal-keeper" who defended the Proclamation of Independence with all the strength and influence he possessed (p. 198-199). His attitude as the successful goalkeeper he revealed on several important occasions. As a young man of 28 years Dorodjatun firmly faced the political bargaining discussions with the Dutch Governor-General, Dr. Lucien Adam. It took four months for the discussions to end. That was even after Dorodjatun received a sort of "wisik" (inspiration) telling him to sign the treaty. "Boy, just sign. The Dutch will soon leave this earth!" said that miraculous voice in the twilight towards the end of February, 1940 (p. 44).

As Sultan, to prevent and rescue his people from the possibility of forced labour (*romusha*) by the Japanese, he developed irrigation projects. Two benefits he obtained: using Japanese money he concurrently improved the agricultural efforts of his people (p. 61-62). When the Dutch, during the reoccupation, were intending to forceably enter the palace the Sultan firmly refused and said "step over my corpse first before you enter the palace" (p. 171). Likewise it happened that when all the leaders of the Republic chose to surrender to the Dutch the Sultan stated resolutely that he would continue to occupy the palace. And it was because the Sultan held out in the palace that he was able to support the Republic's forces defending independence. It was also from the palace that the Sultan arranged the preparations for the "March 1st General Offensive" together with Lt. Col. Soeharto.

There are many matters mentioned in this book which are new. The figure of the Sultan becomes clearer in the book. That people think the Sultan is apolitical is rebutted by Arnold C. Brackman. In fact he considers the Sultan the observer and participant who knows most about events in Indonesia. His perceptions of this country are truly extraordinary. He possesses a rare sense of history and an awareness of the direction and aims of this nation (p. 240).

If there are shortcomings they can perhaps be still found in the reluctance of the Sultan to mention openly matters involving him. Problems surrounding the events of the "17 October 1952" and the "March 1st General Offensive" begin to be touched on in the book, but only in a very general fashion. It still needs to be stated exactly what was the role of the Sultan and how these affairs actually occurred according to the Sultan.

This is for no other reason than the historical course of this nation. While hoping that the Sultan will in the near future consent to write his autobiography, it is useful to read this book. The figures who write are: Moh. Roem, T.B. Simatupang, T.M. Critchley, G.B.P.H. Prabuningrat, George McT Kahin,

A.H. Nasution, Prof. Dr. Moestopo, Mohammad Natsir, dr. A. Halim, Rh. Kusnan, Ny. R. Moh. Hatta, Sarino Mangunpranoto, A.R. Baswedan, Drs. S.K. Trimurti, Frans Seda, Arnold C. Brackman, Rosihan Anwar, Sjafruddin Prawiranegara, Julius Tahija, J.H. Ritman, D. Suprayogi, Bagong Kusudirdja, and Sri Paku Alam VIII. Their contributions about the capacity, quality and experiences of their association with the Sultan provide a more complete picture of the personality of Sri Sultan Hamengkubuwono IX. With an Introduction by Mochtar Lubis and Forewords by President Soeharto, Vice-President Adam Malik and Prince Bernhard, the book, consisting of three sections (Father Sultan From Time To Time by Kustiniyati Mochtar; A Close Acquaintance With Sri Sultan; and Supplements), becomes increasingly interesting and useful.

The younger generation, as keepers of our nation's struggle, must read this book to draw lessons from it.

To Mohammad Roem and his friends who have worked hard to produce this publication it is proper that we express our thanks.

Lukman Hakim/*Suara Karya*, 4 May 1982.

INDONESIA'S ECONOMIC AND BUSINESS RELATIONS WITH ASEAN AND JAPAN

J. PANGLAYKIM

Professor Panglaykim has a longstanding reputation as an analyst who is concerned with problems of the Indonesian economy, particularly those relating to the business and financial sectors. As an observer, lecturer, analyst, as well as practitioner in this field, he tries to uncover fundamental relationships between the various sectors of the Indonesian economy and attempts to clarify the nature of links between the national sectors and foreign elements.

The book is presented in three parts. Part I deals with the Indonesian economy: foreign aid, MNC, management for economic growth, and structural change.

Part II covers Indonesia's economic and business relations with other ASEAN countries and Japan.

Part III includes ASEAN problems and proposals: trade free, business organization, manufacturing company, financial markets, commodity price stability.

xvi + 322 pp., US\$ 9.00



Send orders to:
Bureau of Publications, CSIS,
Jalan Kesehatan III/13, Jakarta.

List of Literature

The Armed Forces in Indonesian Society

The scholarly literature on the Armed Forces in Indonesian Society stems largely from interest in politics and in history, in most cases reflecting the strong pro or anti-military in basic outlook.

The present bibliography does not at all claim to be exhaustive. It only mentions publications written in the English language, although the literature obviously also includes studies written in such other languages as Dutch, German, French, Russian, Japanese and, of course, Indonesian. Nevertheless, the following bibliography, compiled by Harsja W. Bachtiar, does claim to be representative of the nature of the existing multivarious professional literature on the subject and the principle authors who have produced this literature.

- ANDERSON, Benedict, "Current Data on the Indonesian Military Elite", *Indonesia*, No. 18 (October 1974), pp. 153-167.
- ANDERSON, Benedict, et. al., "Current Data on the Indonesian Military Elite", *Indonesia*, No. 7 (April 1969), pp. 195-208.
- ANDERSON, Benedict, et. al., "Data on the Current Military Elite", *Indonesia*, No. 3 (April 1967), pp. 205-216.
- ANDERSON, Benedict and David CHARLES, "The Military Aspects of the Madiun Affairs", *Indonesia*, No. 21 (April 1976), pp. 1-63.
- ANDERSON, Benedict and Judith ECHLUND, "Current Data on the Indonesian Military Elite", *Indonesia*, No. 23 (April 1977), pp. 175-190.
- ANDERSON, Benedict, Judith ECHLUND, and Audrey KAHIN, "Current Data on the Indonesian Military Elite", *Indonesia*, No. 26 (October 1978), pp. 159-177.
- ANDERSON, Benedict and Elizabeth GRAVES, "Current Data on the Indonesian Military Elite After the Reorganization of 1969-1970", *Indonesia*, No. 10 (October 1970), pp. 195-208.
- ANDERSON, Benedict and Susan HATCH, "Current Data on the Indonesian Military Elite", *Indonesia*, No. 18 (October 1974), pp. 153-167.
- ANDERSON, Benedict and Susan HATCH, "Current Data on the Indonesian Military Elite", *Indonesia*, No. 15 (April 1973), pp. 187-197.
- ANDERSON, Benedict and Audrey KAHIN, "Current Data on the Indonesian Military Elite", *Indonesia*, No. 29 (April 1980), pp. 155-175.
- BACHTIAR, Harsja W., "The Legitimacy of the Indonesian Military as a National Institution", in *Keyakinan dan Perjuangan: Buku Kenangan untuk Letnan Jenderal Dr. T.B. Simatupang*, Jakarta, BPK Gunung Mulia, 1972, pp. 90-103.
- BRITTON, Peter, "Indonesia's Neo-colonial Armed Forces", *Bulletin of Concerned Asian Scholars*, Vol. VII, No. 3 (July-September 1975), pp. 14-21.

- BUTWELL, Richard, "Indonesia: How Stable the Soldier-State?", *Current History*, Vol. LXXV, No. 442 (December 1978), pp. 212-216, 229.
- CALDWELL, Malcolm, ed., *Ten Years Military Terror in Indonesia*, Nottingham, Spokesman Books, 1975.
- CROUCH, Harold, "Another Look at the Indonesian 'Coups'", *Indonesia*, No. 15 (April 1973), pp. 1-20.
- CROUCH, Harold, *The Army and Politics in Indonesia*, Ithaca, N.Y., Cornell University Press, 1978.
- CROUCH, Harold, "The Army, the Parties and the Elections", *Indonesia*, No. 11 (April 1971), pp. 177-193.
- CROUCH, Harold, "Generals and Business in Indonesia", *Pacific Affairs*, Vol. XLVIII, No. 2 (Winter 1975-1976), pp. 519-540.
- CROUCH, Harold, "Military Politics under Indonesia's New Order", *Pacific Affairs*, Vol. XLV, No. 2 (Summer 1972), pp. 206-219.
- CROUCH, Harold, "Patrimonialism and Military Rule in Indonesia", *World Politics*, Vol. XXXI, No. 4 (July 1979), pp. 571-587.
- FEDERSPIEL, Howard M., "The Military and Islam in Sukarno's Indonesia", *Pacific Affairs*, Vol. XLVI, No. 3 (Fall 1973), pp. 407-420.
- FEITH, Herbert, "President Sukarno, the Army and the Communists: the Triangle Changes Shape", *Asian Survey*, Vol. IV, No. 8 (August 1964).
- GREGORY, Ann, "Factionalism in the Indonesian Army", *Journal of Comparative Administration*, Vol. II, No. 3 (July-September 1973), pp. 397-415.
- KAHANANE, Reuven, "Social Conditions Leading to Military Dominance: the Case of Indonesia", *Contributions to Asian Studies*, Leyden, Vol. V (1974), pp. 50-77.
- KRISNAMURTHY, S., "The Political Role of the Army in Burma and Indonesia", *International Studies*, Vol. XII, No. 3 (July-September 1973), pp. 397-415.
- JONG, Mun Cheong, "The Indonesian Army and Functional Groups, 1957-1959", *Journal of Southeast Asian Studies*, Vol. V, No. 1 (March 1976), pp. 92-101.
- McVEY, Ruth, "The Post-revolutionary Transformation of the Indonesian Army, Part I", *Indonesia*, No. 11 (April 1971), pp. 131-176; Part II, *Indonesia*, No. 13 (April 1973), pp. 147-181.
- NASUTION, Abdul Haris, *Toward a Peoples Army*, Jakarta, Delegation, 1964.
- NOTOSUSANTO, Nugroho, *The National Struggle Armed Forces in Indonesia*, Jakarta, Centre for Armed Forces History, Department of Defence and Security, 1975.
- NOTOSUSANTO, Nugroho, *The PETA Army during the Japanese Occupation of Indonesia*, Tokyo, Waseda University Press, 1979.
- NOTOSUSANTO, Nugroho and Ismael SALEH, *The Coup Attempt of the 'September 30 Movement' in Indonesia*, Jakarta, Pembimbing Masa, 1968.
- PAGET, Roger K., "The Military in Indonesian Politics: the Burden of Power", *Pacific Affairs*, Vol. XL, No. 3-4, (Fall-Winter 1967-1968), pp. 294-314.
- PAUKER, Guy J., "The Role of the Military in Indonesia", in John J. JOHNSON, ed., *The Role of the Military in Underdeveloped Countries*, Princeton, N.J., Princeton University Press, 1962, pp. 185-230.
- POLOMKA, Peter, "The Indonesian Army and Foreign Policy: A Reappraisal", *Asian Quarterly*, No. 4 (1972), pp. 363-382.
- RIEFFEL, Alexis and Aninda S. WIRYASUPUTRA, "Military Enterprise", *Bulletin of Indonesian Economic Studies*, Vol. VIII, No. 2 (July 1972), pp. 104-108.
- ROBINSON, Richard, "Toward a Class Analysis of the Indonesian Military Bureaucratic State", *Indonesia*, No. 25 (April 1978), pp. 17-39.
- ROCAMORA, J.E., "Recent Changes in Army Commands", *Indonesia*, No. 4 (October 1967), pp. 227-229.
- ROEDER, O.G., *The Smiling General: President Soeharto of Indonesia*, Jakarta, Gunung Agung, 1969.
- RUDNER, Martin, "The Indonesian Military and Economic Policy: The Goals and Performance of the First Five Year Development Plan, 1969-1974", *Modern Asian Studies*, Vol. X, No. 2 (1976), pp. 249-284.
- SAMSON, Allen A., "Army and Islam in Indonesia", *Pacific Affairs*, Vol. XLIV, No. 4 (Winter 1971/1972), pp. 545-565.

SIMATUPANG, T.B., *Report from Banaran: Experiences during the People's War*, Ithaca, N.Y., Cornell University, 1972.

SIMATUPANG, T.B., "The Role of the Military in Stabilization of Southeast Asian Nations, with Special Focus on Indonesia", in Bernard GROSSMANN, ed., *Southeast Asia and the Modern World*, Wiesbaden, Harrassowitz, 1973.

SMAIL, John R.W., "The Military Politics of North Sumatra: December 1956-October 1957" *Indonesia*, No. 6 (October 1968), pp. 128-187.

SRITUA ARIEF ASSOCIATES, *The Indonesian Military Leaders: Biographical and Other Background Data*, 2nd edition, Jakarta, Sritua Arief Associates, 1979.

SUNDHAUSEN, Ulf, "The Factioning of Unity in the Indonesian Army", *Asian Quarterly*, No. 2 (1971), pp. 181-212.

SUNDHAUSEN, Ulf., "The Military in Research on Indonesian Politics", *Journal of Asian Studies*, Vol. XXXI, No. 2 (February 1972), pp. 355-365.

SUNDHAUSEN, Ulf, "The Soldier and the Nation: Self-perception of the Indonesian Army and Its Role in Politics", *Europa-Archiv* (March 1971), pp. 205-216.

UTRECHT, Ernst, "Army and Islamic Opposition in Indonesia", *Journal of Contemporary Asia*, Vol. IX, No: 2 (1979), pp. 175-186.

UTRECHT, Ernst, *The Indonesian Army*, Vol. I, Brisbane, James Cook University of North Queensland, 1980.

ASIA-PACIFIC IN THE 1980S

**ASIA-PACIFIC IN THE 1980S:
TOWARD GREATER SYMMETRY IN ECONOMIC
INTERDEPENDENCE**

Papers presented at the CSIS Conference on *Asia-Pacific in the 1980s*, held in Bali, 1980. Participants at the Conference believed that enhanced consultations within the region could improve the awareness of Pacific Basin countries' economic interest and vulnerabilities. vii + 178 pages, US\$ 6.00

**EMERGING ENTERPRISES
IN THE ASIA-PACIFIC REGION**

Dr. PANGLAYKIM. A recent attempt to examine the emerging enterprises in the Asian countries to find out whether these enterprises are evolving into MNCs, by looking at the various aspects of such enterprises: their organization, management style, ownership pattern, their depth and scope of operations, xii + 103 pages, etc. US\$ 5.00

**SECURITY DIMENSIONS
OF THE ASIA-PACIFIC REGION IN THE 1980'S**

Jusuf WANANDI. The main focus is on security. However, in discussing security matters in this region one encounters another difficulty, namely that the Asia-Pacific region does not exhibit concrete scenarios such as those which can be observed in the European theatre. viii + 106 pages, US\$ 5.00



Send orders to:
Bureau of Publications, CSIS,
Jalan Kesehatan III/13, Jakarta.

--- Contributors

Raymond ATJE, Department of Economic Affairs, CSIS

Harsja W. BACHTIAR, Ph.D.; Professor in Sociology at the University of Indonesia; Dean of the Indonesian Police Academy

J. PANGLAYKIM, Ph.D.; Member of the Board of Directors, CSIS; consultant to private industries, banking and other types of business

Budi S. SATARI, Department of International Affairs, CSIS

Pande Radja SILALAH, Ph.D.; Director of Studies, CSIS

Hadi SOEASTRO, Ph.D.; Head of the Department of Economic Affairs, CSIS

SOEROSO, Department of Political Affairs, CSIS

The Indonesian Quarterly is published in January, April, July and October.

Inquiries concerning subscriptions should be sent to NV Indoprom Company (Indonesia) Ltd., P.O. Box 2090 JKT, Jakarta, phone: 801928. Subscription price is Rp. 3.200,00 a year; Rp. 2.700,00 for Students; US\$ 14.00 for subscribers living outside Indonesia.

Orders for single back issues and bound volumes should be addressed to The Indonesian Quarterly, Jalan Kesehatan 3/13, Jakarta, phone 349489. Single back issues price is Rp. 800,00; US\$ 3.50 overseas. Bound volumes price is Rp. 4.000,00; US\$ 15.00 overseas.